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COURSE TITLE – ENVIRONMENT OF BUSINESS

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## MODULE 1 THE NATURE OF BISINESS ENVIRONMENT AND ENVIRONMENTAL SCANNING



## UNIT 1 THE NATURE OF BUSINESS ENVIRONMENT



### 1.0 INTRODUCTION

Business organizations operate in an environment where they compete with other organizations for resources. Organizations operate not only locally at home but also internationally in countries around the world. Operating in business environment is uncertain and the environment itself is also uncertain and unpredictable because it is complex and constantly changing. In this unit we are going to explore the nature of the business environment.

### 2.0 OBJECTIVES

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

Explain the nature of the business environment

Explain the difference between the internal and external business environment.

Discuss the internal environment of business

## 3.0 MAIN CONTENT

### 3.1 The nature of the business environment

The business environment is a set of forces and conditions outside the organization's boundaries that have the potential to affect the way the organization operates. These forces and conditions change from time to time. The business environment presents opportunities which organizations can take advantage and threats that the organization should avoid. For example changes in the environment such as the introduction of new technology or the opening of global markets, create opportunities for managers to obtain resources or enter new markets and thereby strengthen their organizations. In contrast, the rise of new competitors, a global economic recession, or an oil shortage poses threat that can devastate an organization if managers are unable to obtain resources or sell the organization's goods and services. The quality of managers' understanding of organizational environmental forces and their ability to respond appropriately to those forces are critical factors affecting organizational performance.

At this point, it will be helpful for us to distinguish between the general environment, the task environment and the internal environment.

The general environment consists of factors such as legal, economic, political, socio-cultural, technological and ethical which affect business organizations operations and which emanate from local, national and international sources. We shall explore more about this later in module 2.

The task environment which is an aspect of the external environment and is also referred to as immediate or operational environment is the set of forces and conditions that originate with suppliers, distributors, customers, and competitors .these forces and conditions affect an organization's ability to obtain inputs and dispose of its output. The task environment contains the forces that have the most immediate and direct effect because they pressure and influence managers on a daily basis. When managers turn on the radio or Television, arrive at their offices in the morning, open their mail, or look at their computer screens, they are likely to learn about problems facing them because of changing conditions in their organization's task environment. In unit 2, we shall discuss more about these factors.

An organization's internal environment consists of conditions and forces within the organization which consists of the owners, board of directors, employees, the organization's culture, the physical work environment and the various departments that make up the organization (the organizational structure). Let us briefly discuss these factors.

**Owners**

The owners of business are those who have legal property rights to the business. Owners can be a single individual who establishes and runs a small business, partners who jointly own the business, Individual investors who buy stock in a corporation, or other organizations. These sets of people have a stake in the business and are mindful of how the business is being managed.

**Board of directors**

A corporate board of directors is elected by the stockholders and is charged with overseeing the general management of the firm to ensure that it is being run in a way that best serves the stockholders interest. Some boards are relatively passive. They perform a general oversight function but seldom get actively involved in how the company is really being run. But this trend is changing, however, as more and more boards are more carefully scrutinizing the firms they oversee and exerting more influence on how they are being managed.

**Employees/managers**

An organization's employees are also a major element of its internal environment. The employees are the workers who perform the day to day operations of the organization and ensure that work is being accomplished to achieve the organization's desired goals. These sets of people are being supervised and managed by the managers of an organization. Managers are responsible for combining and coordinating the resources of an organization including the workers to ensure that organizations achieved their goals.

There are many types of managers depending on their levels in the organization. We have the top managers, the middle managers and first-line managers. The top managers are relatively small group of executives who manage the overall organization. Some top managers are addressed as the chief executive officer (CEO). Others are called presidents or vice presidents. The next sets of managers are the middle managers. They are usually very large at least more than the top managers in most organizations. They are primarily responsible for implementing the policies and plans developed by the top managers and for supervising and coordinating the activities of lower-level managers. Examples of middle managers are the operations managers, plant managers, the last sets of managers we are going to consider are the first- line managers who are sometimes also called the supervisors. They supervise and coordinate the activities of the operating employees.

**Physical work environment**

An important part of the internal environment is the actual physical environment of the organization and the work that people do. Some firms have their facilities in downtown skyscrapers, usually spread across several floors. Others locate in suburban or rural settings and may have facilities resembling a college campus. Some facilities have long halls lined with traditional offices.

**Organizational structure**

Business organizations are characterized by a division of labour which allows employees to specialize in particular roles and to occupy designated positions in pursuit of the organizational objectives. The resulting pattern of relationships between individuals and roles constitutes what is known as organizational structure and represents the means by which the purpose and work of the organization is carried out.

## 4.0 CONCLUSION

Managing the business environment is an important aspect of managing business organizations as this can impact greatly on the success or failure of any business. Organizations must be careful in dealing with its business environment as this will affect their overall performance.

## 5.0 SUMMARY

The business environment is everything around the business organization which can impact on the performance of the organization. As we saw, in examining the business environment, we distinguished between the internal and the external factors which can affect the operations of an organization. The internal environment consists of the management team, employees, structure of the organization consisting of the various departments of the firm. While the external environment consists of task environment otherwise called the immediate or operational environment. It includes the suppliers, customers, distributors, competitors among others and the general or contextual environment which comprises of those macro environmental factors such as legal, political, economic, socio cultural technological influences on business which impact on the business activities.

6.0 TUTOR-MARKED ASSIGNMENT

1. What do you understand by the term business environment?

2. Discuss the internal and external factors of business environment.

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## UNIT 2 THE TASK ENVIRONMENT

**CONTENTS**



### 1.0 INTRODUCTION

The task environment, which is also called the immediate or operational environment, has profound impact on the operations of a firm.

The task environment otherwise called the immediate or operational environment for most firms includes suppliers, competitors, distributors, customers, labor markets, and financial institutions. We shall briefly discuss some of these factors.

### 3.1 Suppliers

Suppliers are individuals and companies that provide an organization with the input resources (such as raw materials, component parts, or employees) that it needs to produce goods and services. In return, the supplier receives compensation for those goods and services. An important aspect of a manager's job is to ensure a reliable supply of input resources. An organization may need some resources which make it dependent to a large degree on the suppliers of those resources, some of whom operate in markets which are structured to a considerable extent. The activities of a supplier can have a fundamental impact on an organization's success. The success of suppliers is often intimately connected with the decisions and/or fortunes of their customers. Some organizations may seek to gain an advantage in price, quality or delivery by purchasing resources from overseas, while others might consider dealing with suppliers within the country of its operation.

### 3.2 Distributors

Distributors are organizations that help other organizations sell their goods or services to customers. The decisions that managers make about how to distribute products to customers can have important effects on organizational performance.

The changing nature of distributors and distribution methods can bring opportunities and threats for managers. If distributors become so large and powerful that they can control customers' access to a particular organization's goods and services, they can threaten the organization by demanding that it reduce the price of its goods and services.

### 3.3 Customers

Customers are individuals and groups that buy the goods and services of an organization. A customer may be an individual, an institution such as a school, hospital, and other organizations or government agency. Customers are important to all organizations. The ability to identify and meet customers' needs is the main reason for the survival and prosperity of an organization. Customers are often regarded as the most critical stakeholder group since if a company attract them to buy its products, it cannot stay in business. Organizations must work towards achieving customers' satisfaction and attract new ones. They can do this by producing goods and services effectively and efficiently. By so doing they will be able to sell quality goods or services at a fair price to customers.

Many laws are there to protect customers from companies that attempt to provide dangerous or shoddy products. Laws exist that enable consumers to sue companies whose products cause them harm such as a defective vehicle or tire. There are laws that force companies to disclose the interest rates they charge on purchases. Companies may be prosecuted for breaking such laws.

When customers are so powerful, they can influence or force down prices or demand higher quality and better service, which will increase an organization's operating costs and reduce their profitability. However when customers are weak, this might give a company the opportunity to increase prices and make more profit.

## 3.4 Competitors

Competitors are organizations that produce similar goods and services to an organization. In other words, competitors are organizations compete for the same customers. For example, Dell's competitors include other PC manufacturers such as Apple, Compaq, Sony, and Toshiba. In the Nigerian communication industry, MTN competes with other communication firms such as Etisalat, Glo, and Airtel. Competition both direct and indirect is an important part of the environmental context in which firms operate. How firms respond to competitive forces affect their market share and their overall performance.

Rivalry between competitors is potentially the most threatening force that organizations must deal with. A high level of rivalry often results in price competition, and fallen prices reduce access to resources and lower profits. Competition is not only limited to existing firms in the industry rather it also includes potential competitors which are organizations that are not presently in the task environment but have the capability to enter the industry if they wish. In general, the potential for new competitors to enter a task environment and thus boost the level of competition within the industry depends on the barriers to entry. Barriers to entry are factors that make it difficult and costly for an organization to enter a particular industry. It is important to note that the more difficult and costly it is to enter an industry; the higher are the barriers to entry. In other words, the more difficult and costly it is to enter the task environment, the higher are the barriers to entry, the fewer the competitors in that industry and thus the lower the threat of competition. With fewer competitors, it is easier to obtain customers and keep prices high.

Barriers to entry result from three main sources: economies of scale, brand loyalty, and government regulations that impede entry. Economies of scale are cost advantages associated with large operations. Economies of scale result from factors such as manufacturing products in very large quantities, buying inputs in bulk, or making more effective use of organizational resources than do competitors by fully utilizing employees' skills and knowledge.  Large Organizations who are already in the industry and who operate with economies of scale will enjoy lower costs than the costs of potential entrants; this will discourage potential entrants from entering the industry. Brand loyalty is customers' preference for the products of organizations currently existing in the industry. If established organizations enjoy significant brand loyalty, then a new entrant will find it extremely difficult and costly to build customer awareness of the goods or services they intend to provide. Some government regulations may be a barrier to entry. Many industries that were deregulated experienced a high level of new entry after deregulation. This will force existing companies in those industries to operate more efficiently or risk being put out of business.

## 4.0 CONCLUSION

The task environment includes those environmental dimensions that have a direct working relationship with the organization. These dimensions influence the day to day operations of the business enterprises. The task environment is closer to the organization and also has a direct influence on its performance.

## 5.0 SUMMARY

The task environment consists of the suppliers, customers, distributors, and competitors. These institutions affect the operations and every day activities of the firm. Suppliers are those organizations which supply the raw materials the organization uses to produce its goods or services. Customers are people around the organization who buy the goods or services provided by the organization. Competitors are organizations within the business environment that produce the same or similar goods and services to the set of customers. They compete with other organizations in similar business for the same customers.

## 6.0 TUTOR MARKED ASSIGNMENT

The task environment is an important dimension of the business environment, discuss.

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## UNIT 3 ENVIRONMENTAL ANALYSIS

**CONTENTS**



### 1.0 INTRODUCTION

Organizations constantly interact with its changing environment and one of the main problems facing organizations is coping with this environmental uncertainty. To make sure that resources are properly utilized to meet the objectives of the organizations, Firms must examine the environmental influences upon them. This unit is devoted to understanding how firms analysis their environments with the aim of discovering an opportunity that may be useful to them and averting threats that could be detrimental to their operations.

## 2.0 OBJECTIVES

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

- The meaning of environmental analysis
- Environmental Scanning
- Techniques of environmental scanning
- Limitations to environmental analysis

## 3.0 MAIN CONTENT

### 3.1 The meaning of Environmental Analysis/scanning

Managers need to understand how the environment affects their organizations and should be able to identify opportunities and threats that are likely to influence their organizational performance. However information about the environment is not always readily available for managers. Managers often find it difficult to predict about the environment due to uncertainty. ‘’Environmental analysis is the of scanning the environment to identify changes or trends that have the potential to generate opportunities and threats to the organization’s current or future intended strategies’’, (Worthington and Britton, 2009). The way this environmental scanning may be put into operations depends on the firm and can be undertaken informally or using quite sophisticated analytical tools and techniques that require significant employment of an organization’s resources. According to Bateman and Snell (2009), environmental scanning is the searching for and sorting through information about the environment. Environmental scanning involves gathering information about the events and their relationships within an organization’s internal and external environment. It is the gathering, reviewing and evaluating whatever information about internal and external environments that can be obtained from several distinct sources on a regular basis and interpreting them in the light of the organization’s business sensing the pulse of environmental threats and opportunities. Environmental scanning will help organizations to identify early signals of potential changes in the environment.

Informal scanning of the business environment is the process of gathering information about, and from, the organization’s customers, suppliers, distributors and competitors through questionnaires, interview observations, or feedback from the organization’s own sales and customer service staff and using such information to the advantage of the firm. On the other hand, an organization may prefer a more systematic and formal means for scanning and analyzing the environment. Generally speaking, this is a more deliberate approach to environmental analysis and tends to focus on the firm’s external environment.  Falley and King 1977 in Oyedijo (2004), identified three types of environmental scanning as follows;

1. Irregular scanning systems which consist largely of adhoc environmental studies. They emphasis short run reaction to environmental crisis with little attention to future environmental events.
2. Regular scanning systems – these systems revolve around a regular review of the environment or significant environmental components. The focus of this scanning system is primarily retrospective but some thought is given to future conditions assumed to be evolving within the environment.
3. Continuous scanning systems - Here, the components of the organizational environment are constantly monitored. The scanning is an on-going activity for an established segment of the organizational structure. Continuous scanning tends to be more proactive or future oriented than either irregular or regular systems. The use of a continuous scanning system generally reflects a serious and sustained commitment to environmental analysis. In most organizations, environmental analysis evolves from an irregular system into a regular and then a continuous scanning system.

In an attempt to scan the Environmental, managers usually ask the following questions;

- Who are our current competitors?
- Are there few or many entry barriers to our industry?
- What substitutes exist for our product or service?
- Is the company too dependent on powerful suppliers?

Answers to these questions help managers develop competitive intelligence, the information necessary to decide how best to manage in the competitive potential of different environments.

3.2 Techniques for analyzing the business environment

Many techniques are available to organizations for the analysis of the business environment. Some of these techniques which are discussed below include scenario development, forecasting, benchmarking, trend extrapolation, expert opinion, cross-impact matrices, SWOT or TOWS

### 3.2.1 Scenario planning

When organizations try to determine the effect of environmental forces on their operations, they frequently develop scenario of the future. Scenario planning is the formulation of multiple forecasts of future conditions followed by an analysis of how to respond effectively to each of those conditions. It can also be called contingency planning.  In scenario planning, organizations may generate between two or four generically different possible futures as an outcome of the scenario planning process. This techniques often focuses on the ‘’best case’’ or ‘’worst case’’ scenarios. Scenario planning seeks to consider the possible effects on the interactions between various external environmental forces on the future of an organization.

Managers should regard the scenarios they have developed as living documents, not as merely prepared once and put aside. Instead, they should constantly modify the scenarios they have created taking into considerations of the changing environment, for example, significant changes in the political, economic and legal environments and what the competitors are doing should be signal for changes in the scenarios already created.

### 3.2.2 Forecasting

Forecasting is another method used by organizations to analysis their environments. Forecasting is the process of predicting what will happen in the future considering the interplay of some environmental variables. According to Bateman and Snell, (2009), forecasting is the method used for predicting how variables will change the future. For example, in making capital investments, firms may try to forecast how interest rates will change. In deciding to expand or downsize a business, firms may try to forecast the demand for goods and services or forecast the supply and demand of labour they probably would use.

Forecasts are designed to help executives to predict about the future, their accuracy varies. Forecasts are more accurate when the future ends up looking like the past. However it should be noted that in cases where there are little or no changes between the past and the future, forecasting may not be all that useful. Forecasting is more useful when the future trends in the environment are more dynamic. The best advice for using forecasting as offered by Bateman and Snell, (2009), might include the following

- Use multiple forecasts, and perhaps average their predictions
- Remember that accuracy decreases the further into the future you are trying to predict.
- Forecasts are no better than the data used to construct them.
- Use simple forecasts (rather than complicated ones) where possible.
- Keep in mind that important events often are surprises and represent departure from predictions.

### 3.2.3 SWOT or TOWS Analysis

The full meaning of SWOT is S is strengths, W is weaknesses, O is for Opportunities and T is for Threats. These are factors found within the business environment in which the organization operate. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best combinations of these factors. The best practice is to effectively maximize a firm's strengths and opportunities and at the same time, minimize the weaknesses and threats found in the business environment. This frame work can be used to choose and design an effective strategy that can assist an organization to compete in its business environment.

A firm can start its SWOT analysis by reviewing its internal strengths and weaknesses. This can be done by the management or by external consultants who can help to provide a more objective view. The factors that are identified are listed and given scores to indicate their importance, with the most important issues receiving the highest scores. The process is applied for the firm's external opportunities and threats so as to bring to light the external factors which will likely occur and which are seen to have impacts on the firm's operations. Using this approach, the firm can then design strategies that reflect its ability to operate in its business environment. The resultant strategies should enable the firm to attain its objectives by taking advantages its strengths, opportunities and minimizing its weaknesses and avoiding the threats.

### 3.2.4 Benchmarking

Benchmarking is yet another tool in which a firm can use to analyze its environment. Benchmarking is the process in which an organization undertakes to compare its practices and technologies with those of other organizations. In practice, a firm would identify the best performing company in a given area, for instance, product quality or customer service, and then comparing the processes with theirs to see the areas where improvements can be made in order to meet or even exceed the best practice. To achieve this, a team would collect information on its own company operations and those of the firm to determine gaps. The gaps would serve as a point of entry to know the underlying causes of performance differences. The idea is that by applying this approach, the team would make out a set of best practices that would enable them to meet world class performance.

## 3.3 Limitations of environmental analysis

The environmental analysis procedure described above represent some of the ways in which business organizations can assess the impact of the dynamic business environment in a way to understand what changes are likely to occur, how these may affect the organization and what responses would be appropriate in the circumstances. However it should be noted that the importance of such analysis does not only depends in the information provided but also in the process of gathering and evaluating the data and in applying it to the operations of the organization.

Although it is obvious that environmental analysis is a useful tool of decision making in an organization. However there are some limitations in its application. To start with, analysis of the business environment is not an exact science and does not eliminate uncertainty for an organization. In fact there could be unanticipated events which do not follow the normal pattern and these might distort the information gathered for environmental analysis and eventually the outcome. Managers should not regard the process as a means of foretelling the future and should not avoid their responsibilities as strategic planners and decision-makers by blaming problems on a deficiency in the application of a particular technique or on inaccuracies in the data provided.

In addition to this, Worthington and Snell (2009), argue that environmental analysis in its self is by no means a guaranty of organizational effectiveness and can sometimes complicate the decision making process by providing information which calls into question the intuitive feeling of experienced managers. The danger is that the analysis may become an end in itself and may obscure information and data coming from other sources, rather than being used in conjunction with them. Accordingly, its value in strategic thinking and strategic decision making may not be exploited to its full potential and this may represent a lost opportunity to the organization as well as an inefficient and ineffective use of resources.

## 4.0 CONCLUSION

Environmental analysis is a way of coping with uncertainty in the environment. In doing this, an organization avoids acting on ignorance. Environmental analysis involves gathering relevant data from the internal and external environment, reviewing and evaluating them with the aim of discovering the firm's strengths and weaknesses from the internal environment, and opportunities and threats in the external environment and using such information to formulate the firm's strategies that will enable it to achieve its objectives. Through environmental scanning, firms can identify early signals of potential changes in the environment and detect changes that are already under way.

## 5.0 SUMMARY

Environmental analysis entails scanning the business environment to obtain information that might be useful to an organization in its operations. To do this, an organization can use scenario planning which is a narrative that describes a particular set of future conditions. Forecasting is another method use by a firm to analysis the environment. It is used to predict the future outcomes using some variables. SWOT analysis is popular method used by organizations to determine its strengths and weaknesses and to detect opportunities and threats that are inherit in the environment. Organizations can as well use benchmarking when trying to predict changes in the organization. This method enables a firm to undertake intensive study of the best practices of various firms to understand their sources of competitive advantage and take advantage of it. Environmental analysis has its limitations as well. Managers therefore should be very careful while undertaken environmental scanning.

### 6.0 TUTOR MARKED ASSIGNMENT

What is environmental scanning? Discuss the usefulness of SWOT analysis in environmental scanning.

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## MODULE 2 THE EXTERNAL BUSINESS ENVIRONMENT

## UNIT 4 POLITICAL ENVIRONMENT

**CONTENTS**



### 1.0 INTRODUCTION

The political environment is an important dimension of the business environment which affects business enterprise in a number of ways. In this unit we shall discuss some of the key aspects of the political environment which includes the political systems, government in democratic states, branches and functions of government and how they impact on business activities.

### 2.0 OBJECTIVES

Having read this unit, you should be able to:

- Discuss the political systems and how it affects business organizations.
- Explain the functions of government and its impact on business activities.
- Demonstrate how political environment influences business environment
- Political Systems

### 3.0 MAIN CONTENT

### 3.1 The Nature of the Political System

The political environment is mainly concerned with the type of leadership a nation adopts. Political processes shape a society's laws, which constrain the activities of organizations and thus create both opportunities and threats. Politics is concerned with those processes which help to determine how conflicts are contained, modified, postponed or settled, and as such can be seen as a universal social activity. Politics tends to be associated with activities at state level where the resolution of conflict often involves large numbers of people.

**3.1.2 Government** ; This is concerned with the pursuit and exercise of power- the power to make decisions which affect the lives of substantial numbers of people, be it at local, state, national or even international level. Government may also refer the institutions through which power tends to be formally and legitimately exercised, whether they are cabinets, parliaments, councils, committees or congresses. Whereas the pursuit and exercise of power tends to be enduring feature of any society, governments are normally transitory, comprising those individuals and/or groups who, at a particular time, have the responsibility for controlling the state, including making laws for the good of society. How governments exercise their power and the ideological foundations on which this is based, helps to indicate the nature of the political system and its likely approaches to the resolution of conflicts, (Worthington and Britton 2009).

### 3.1.3 Types of political systems

We can distinguish two main political systems which are the authoritarian system and the political system. However in between these two, there could be other dimensions.

### 3.1.4 Authoritarian political systems

The authoritarian political system could be an individual (e.g. a monarch or other powerful individual) or a group of individuals (e.g. a political party or military junta) who may have assumed political power in a variety of ways (e.g. by birth, election or coup). Once in power, the individual or group will tend to act so as to limit the degree of participation by others in the process of decision making, even to the extent of monopolizing the process altogether and permitting no opposition to occur. Where this is the case, a society is often described as being ‘totalitarian.’

### 3.2. Democratic political systems

In a democratic political system, it is assumed that as far as possible conflicts should be resolved by rational discussions between the various parties concerned, with the final solution being accepted voluntarily by all participants, even if they disagree. In democratic setting solution to conflict resolution can be achieved through a system of political representation and responsibility. In a political system, the wishes and views of individuals are represented in established authorities that are chosen by the people at regular intervals through elections. Such representatives are accountable to the people they represent. According to Worthington & Britton (2009), democracy means far more than just popular government or a system of regular elections, the democratic approach to government implies the existence of a complex array of institutions and processes through which the wishes of the people are articulated and carried out. Although the specific institutional arrangements tend to vary between states, however there are four common components inherit in any democratic government which are an electoral system, a party system, a representative system and a pressure group. These are discussed below.

### 3.2.1 The electoral system

The electoral system is responsible for organizing elections in the country. Thus it is through the electoral system that the people (the electorate) are linked to government through elections. Election gives the electorate the power to choose those who will represent them in the government. For an electoral system to be effective and operate in a way that will be regarded as democratic, Worthington & Britton (2009) suggest that a country's electoral system should exhibit the following features; \

- a system of regular elections (e.g. every four to five years) based on universal adult suffrage. In Nigeria, presently elections are held for every four years.
- Basic freedoms of speech, movement, assembly, etc
- Freedom from coercion and absence of illegal electoral practices;
- A secret ballot;
- Free media.

These conditions are necessary for a proper functioning of the electoral system. If they are absent, then the system becomes suspicion that the electoral outcome may not reflect the wishes of the people. Clearly, the electoral system must be transparent. Each vote must count and the wishes of the majority as expressed through the number of votes cast are considered as the final result. In Nigeria, for example, a simple majority is usually sufficient to ensure victory.

### 3.2.2 The party system

In a true democratic dispensation, the system operates through the party system. Candidates are presented to the electorates through political parties. Although it is also possible to have a one party system, but in most countries like Nigeria, USA, and Britain to mention just a few, different political parties are organized and the candidates are elected through the political parties. In the present Nigeria, there are various political parties e.g. PDP, APC, APGA among others which present their candidates for elections into different political offices at the local areas, state and the federal levels. The parties first of all choose their candidates and present them to the electorates for election into various offices. Thus the candidates from different political parties compete for offices during election times.

One of the major benefits of the party system is that it provides a means of selecting political leaders and the kind of policies they would pursue if they win the election. Parties usually use label such as plants, animals, buildings, and other items to describe their parties to the electorates during election times in order voters to recognize their candidates and vote for them. In Nigeria some parties use coin, hen, and umbrella among others to describe their parties to the electorates. In order to convince the electorate, parties usually have an identifiable policy statement (party manifesto) which states what the party stands to achieve or belief in and attempts to achieve if it gains political office. However it should be noted that party manifestos are not always a good guide to determine preferences of individual candidates. What matters in most cases is the individuals' credentials and previous achievements.

### 3.2.3 A representative assembly

An important feature of a democratic government is the existence of a representative decision-making body which consists of a group of individuals chosen by a country's citizens to help make important decisions on their behalf. In Nigeria which operates a federal system of government, we have such representatives at the local government areas, the states and the national levels. Voters not only elect their own national government but also choose decision makers at the state and local levels.

In most federal system of government as practiced by Nigeria, U.S.A and Britain to mention just a few, the legitimate power to make decisions is divided between two or three levels of government, (the national, state and local levels). Each of these levels of government has independent powers that are usually laid down in written constitution which is interpreted by the courts. For example in Nigeria the federal government controls arm forces and foreign affairs, while the state controls education in its state level.  However in contrast, under a unitary system of government, authority ultimately rests with the national government and any powers granted to sub-national levels by central sovereign authority can ultimately be rescinded, including the right of government at sub-national level to exist, (Worthington and Britton 2009). Thus the government at national level clearly holds the whip hand and would normally expect its view to prevail where a dispute over an issue or policy occurred between it and a sub-national authority. It should be noted that decision makers in democratic states at all levels and under different government systems have on the whole, a tendency to settle such conflicts through negotiation, bargaining and compromise rather than by exerting their own power and authority although this might be used on occasions.

## 3.3 Functions of government

There are three major branches or functions of government. These branches or functions of government are discussed below.

### 3.3.1The legislative function

Governing, as we have seen, is about making decisions which affect the lives of large numbers of people. Some of these decisions require new laws or changes to existing laws to bring them into effect so that the individuals and/or groups to whom they apply become aware of the government's wishes and requirement its. In a democratic system of government this formal power to make the law (i.e. to legislate) is vested in a legislative body (the legislature) which is elected either wholly or partly by the people. As indicated above, this process of choosing a representative decision-making body by popular election is a central feature of the democratic approach to government.

Leaving aside for one moment the relative power of the legislative and executive branches of government, it is possible to identify a number of common features which apply to legislatures and the legislative function in most, if not all, democratic states. These include the following:

- A bicameral legislature, that is, a legislature with two chambers: an upper house ID and a lower house, each with specific powers and roles in the legislative process. In most countries each chamber comprises representatives chosen by a separate electoral process and hence may be dominated by the same party or different parties or by no single party, depending on the electoral outcome. For a legislative proposal to be accepted, the consent of both chambers is normally required. This is one of the many checks and balances normally found in democratic systems of government.

- A multi-stage legislative process - involving the drafting of a legislative proposal, its discussion and consideration, where necessary amendment, further debate and consideration and ultimate acceptance or rejection by either or both legislative chambers. Debates on the general principles of a proposed piece of legislation would normally involve all members of each chamber, whereas detailed discussion tends to take place in smaller groups or committees.

- An executive-led process, that is, one in which most major legislative proposals emanate from the executive branch of government. In a presidential system of government (e.g. Nigeria) the chief executive (the President) is normally elected separately by the people and is not part of the legislature (in other words there is a separation of powers). In a parliamentary system (e.g. the UK) members of the executive may also be members of the legislative body and hence may be in a position to control the legislative process.

- Opportunities for legislative initiatives by ordinary representatives, that is, arrangements which permit ordinary members of the legislative assembly to propose new laws or changes to existing laws. In practice such opportunities tend to be limited and dependent to a large degree for their success on a positive response from the political executive.

- Opportunities to criticise and censure the government and, in some cases, remove it from office (e.g. through impeachment)  this is a vital function within a democratic system of government in that it forces decision-makers to defend their proposals, explain the logic of their actions and account for any mistakes they may have made. Opposition parties play an important role in this context within the legislative body and through media coverage can attack the government and articulate alternative views to the wider public. Specialist and Standing Committees for scrutinising legislation and the day-to-day work of the executive branch of government also usually exist in democratic regimes.

- Control of the purse strings, that is, the power to grant or deny government the money required to carry out its policies and legislative programme. In theory this is a formidable power, given that no government can operate without funds. In practice the power of the legislature to deny funding to a democratically elected government may be more apparent than real and, where necessary, compromise tends to occur between the executive and legislative branches of government.

As will be evident from the comments above, legislating is a complex and time-consuming process, offering numerous opportunities for individuals and groups both within and outside the legislative body (e.g. pressure groups) to delay and disrupt the passage of legislation. While no government can guarantee to achieve all its legislative aims, there is a cultural expectation in a democracy that, as far as possible, promises made before an election will be put into effect at the earliest opportunity by the democratically elected government. Such an expectation usually provides the incumbent administration with a powerful argument for legislative support on the occasions when it is confronted with intransigence within the legislative assembly or hostility from outside sectional interests.

### 3.3.2 The executive function

Governing is not only about making decisions; it is also about ensuring that these decisions are put into effect in order to achieve the government's objectives. Implementing governmental decisions is the responsibility of the executive branch of government.

In modern states the term 'the executive' refer that relatively small group of individuals chosen to decide on policy and oversee its Implementation; some of these individuals will hold political office, others will be career administrators and advisers, although some of the latter may also be political appointees. Together they are part of a complex political and administrative structure designed to carry out the essential work of government and to ensure that those responsible for policy making and implementation are ultimately accountable for their actions.

The policy-making aspect of the executive function is normally the responsibility of a small political executive chosen (wholly or in part) by popular election. Under a presidential system of government, the chief executive or President is usually chosen by separate election for a given period of office and becomes both the nominal and political head of state. He/she subsequently appoints individuals to head the various government departments/ministries which are responsible for shaping and implementing government policies. Neither the president nor the heads of departments normally sit in the legislative assembly, although there are sometimes exceptions to this rule (e.g. the Vice-President in the United States).

In contrast, in a parliamentary system the roles of head of state and head of government are separated, with the former usually largely ceremonial and carried out by either a president (e.g. Germany, India) or a monarch (e.g. UK, Japan). The head of government (e.g. Prime Minister), while officially appointed by the head of state, is an elected politician, invariably the head of the party victorious in a general election or at least seen to be capable of forming a government, possibly in coalition with other parties. Once appointed, the head of government chooses other individuals to head the different government departments/ministries and to be part of a collective decision-making body (e.g. a Cabinet) which meets to sanction policy proposals put forward through a system of executive committees and subcommittees (e.g. Cabinet Committees). These individuals, along with the head of government, are not only part of the executive machinery of the state but also usually members of the legislative assembly and both 'individually' and 'collectively' responsible to the legislature for the work of government.

The day-to-day administration of government policy is largely carried out by non-elected government officials (sometimes referred to as civil servants or bureaucrats) who work for the most part in complex, bureaucratic organisations within the state bureaucracy. Apart from their role in implementing public policy, government officials help to advise ministers on the different policy options and on the political and administrative aspects of particular courses of action. Needless to say, this gives them a potentially critical role in shaping government policy, a role which has been substantially enhanced over the years by the practice of granting officials a significant degree of discretion in deciding on the details of particular policies and/or on how they should be administered.

Whereas politicians in the executive branch of government tend to be transitory figures-who come and go at the whim of the head of government or of the electorate-most, if not all, officials are permanent, professional appointees who may serve a variety of governments of different political complexions and preferences during a long career in public administration. Whatever government is in power, officials are generally expected to operate in a non-partisan (i.e. neutral) way when advising their political masters and when overseeing the implementation of government policy. Their loyalty in short is to the current administration in office, a principle which helps to ensure a smooth transition of government and to guarantee that the upheaval caused by a general election does not prevent the business of the state from being carried out as usual.

### 3.3.3 The judicial function

Governing is not just about making and implementing laws; it is also about ensuring that they are applied and enforced. The latter is essentially the role of the third arm of government, namely the judiciary and the system of courts. Like political institutions, legal structures and processes tend to a degree to be country specific and vary according to a number of influences including history, culture and politics. For example, while some states have a relatively unified legal system, others organised on a federal basis usually have a system of parallel courts adjudicating on federal and state/provincial law, with a Supreme Court arbitrating in the event of a dispute. In some countries a proportion of the judges may be directly or indirectly elected by the public, in others they may be appointed by government and/or co-opted by fellow judges. Business student should make themselves familiar with the legal arrangements within their own country which contains information on the legal system in-England and Wales). In this section we look briefly at the judicial function as related the concept of democracy.

Whereas in totalitarian systems of government the judiciary is essentially the servant of the ruling elite (e.g. the 'party'), in a democracy it is an accepted principle that there should be a separation between the judicial function and the other two branches of government in order to protect the citizen from a too powerful state. This notion of an impartial and independent judiciary, free to challenge the government and to review its decisions, is regarded as one of the hallmarks of a democratic system of government, a further manifestation of the doctrine of the separation of powers.

In practice of course, notions of judicial independence and role within the democratic political process tend to be the subject of certain amount of debate, particularly in countries where senior appointments to the judiciary appear to be in the gift of politicians (e.g. Supreme Court judges in the United States are nominated by the President with the consent of the Senate) or where individuals with judicial powers also have an executive and/or legislative role (e.g. the Home Secretary in Britain) Equally there are questions over the degree to which the courts should have the power to review the constitutionality of decisions made by a democratically elected government. In the United States, for example, the Supreme Court has a long-established right to declare a law void if it conflicts with its own interpretation of the American constitution. In contrast in Britain, the legal sovereignty of Parliament and the absence of a codified written constitution push the judiciary towards trying to interpret the intentions of the framers of government legislation and any legal decision unwelcomed by the government can be reversed by further legislation. That said, it is interesting to note that in recent years there has been an increased willingness on the part of the British judiciary to review administrative decisions, particularly those made by ministers.( Worthington I, and Britton. C, 2009)

Other aspects, too, call into question how far in modern democratic states there is a total separation between the different arms of government (e.g. increasing use of administrative courts/tribunals) and whether it makes sense to rigidly distinguish between rule making and rule adjudication. Certainly some of the past judgments by the United States Supreme Court (e.g. in the area of civil rights) demonstrate that the courts can be influential in shaping decisions on major issues of policy and suggest that the judiciary are susceptible to influences from their ova& values or to general societal pressures. In short it seems fair to suggest that under current legal arrangements, legal adjudication is not far removed from the world of politics; arguably we may like to perpetuate the myth of an entirely separate and independent judiciary since this is a necessary aspect of the stability of many existing political systems.

### 3.3. 4 Checks and balances in democracies

As will be evident from the analysis above democracy implies the existence of a system of checks and balances, arrangements which serve to curb government action and restrict its influence on the day-to-day lives of its citizens. These restraints on the actions of the state at national level can be divided into two main types: political and social/economic.

Political checks and balances emanate primarily from three main sources:

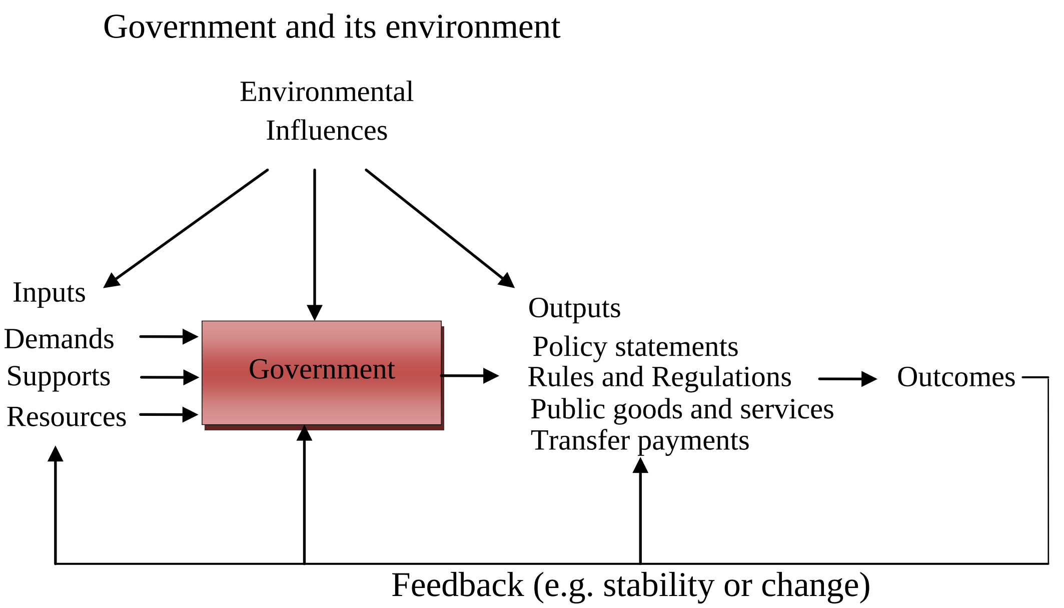
- the separation of powers - particularly the notion that the three arms of government are in separate hands and that decisions require the concurrence of all branches of government;
- a bicameral legislature - with legislation having to be accepted by both houses and subject to scrutiny and amendment by opposition parties;
- the territorial division of powers - whether under a federal arrangement or through the devolution of power to regional bodies and/or local authorities. Supranationalism is a further development.

The point is not that these arrangements necessarily exist in their most complete form in democratic states, but that - however imperfect in practice - their existence helps to provide time for reflection and delay in the decision-making process and to encourage consultation, negotiation and consensus building, the essence of the democratic approach to conflict resolution.

The notion of social and economic checks and balances refers to those countervailing pressures on the activities of the state and its agencies that derive from the existence of non-state structures and processes which affect the lives of individuals and which ultimately restrict the scope of government influence. These include private business organisations, professional associations, promotional bodies, churches and other groups which help to shape our economic, social and moral environment. As subsequent chapters will demonstrate, the bulk of economic decisions in democratic states are not taken by the government but by private individuals and organisations (i.e. firms) interacting through a market system. This acts as a kind of check and balance on the free activity of the public sector and is a fundamental characteristic of democratic government.

It is appropriate to conclude this examination of the political environment with a brief discussion of the process of governmental decision making in democratic systems. Here, the basic model of the organisation in its environment introduced in module 1 serves as a useful analytical tool (see Figure 4.). Governments, like firms, are organisations which transform inputs into output and they do so in an environment largely the same as that which confronts other types of enterprise. Like other organisations, government is a user of resources, especially land, labour, capital, finance and expertise, but in addition all governments face political demands and supports when considering their policy options.

**Figure 4. A model of the policy process**



Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

As indicated above, political demands - including those directly or indirectly impinging on business activity - become translated into action through a variety of mechanisms, including the electoral system, party activity, pressure group influence and political communication; hence a government is always keen to point out that electoral victory implies that it has a mandate for its policies. The supports of the political system are those customs, conventions, rules, assumptions and sentiments which provide a basis for the existence of the political community and its constituent parts and thus give legitimacy to the actions and existence of the incumbent government. In democratic systems, the belief in democratic principles, and the doctrines and practices emanating from that belief, are seen as central to the activities of government and its agencies.

The outputs of the political system vary considerably and range from public goods and services (e.g. healthcare) - provided predominantly from money raised through taxation - to rules and regulations (e.g. legislation, administrative procedures, directives) and transfer payments (i.e. where the government acts as a reallocator of resources, as in the case of the provision of state benefits). Taken together, the nature, range and extent of government output not only tend to make government the single biggest business in a state, they also, influence the environment in which other businesses operate and increasingly in which other governments make decisions.

As far as governmental decision-making is concerned, this is clearly a highly complex process which in practice does not replicate the simple sequence of events suggested by the model. Certainly governments requite 'means' (inputs) to achieve 'ends' (output), but the outputs of the political system normally only emerge after a complex, varied and ongoing process involving a wide range of individuals, groups and agencies. To add further confusion, those involved in the process tend to vary according to the decision under discussion as well as over time, making analysis fraught with difficulties. One possible solution may be to distinguish between the early development of a policy proposal (‘initiation') and its subsequent 'formulation' and 'implementation', in the hope that a discernible 'policy community' can be identified at each stage. But even this approach involves a degree of guesswork and arbitrary decision-making, not least because of the difficulty of distinguishing precisely between the different stages of policy-making and of discerning the influence of individuals and groups at each phase of the process.

Notwithstanding these difficulties, it is important for students of business and for businesses themselves to have some understanding of the structure of decision-making and of the underlying values and beliefs which tend to shape governmental action, if they are to appreciate (and possibly influence) the political environment in which they exist. In short, studies of political systems, institutions and processes help to provide insight into how and why government decisions are made, who is important in shaping those decisions and how influence can be brought to bear on the decision making process. As an increasing number of individuals and groups recognise, knowledge of this kind can prove a valuable organisational resource that on occasions is of no less significance than the other inputs into the productive process.

**4.0 CONCLUSION**

We have seen that the political system is an important environment that affects the business environment. Important Political dimensions such as the legislature, executive, and the judiciary can make and implement decisions that affect business organizations in one way or the other.

**5.0 SUMMARY**

In this section, we have discussed the nature and importance of the political function and how it affects business organizations. We saw that the political system consists of the legislative organ which makes the law. The executive function implements the law and the judiciary function is concerned with the interpretation, application and enforcement of the law. These organs make, enforce and implement decisions that could affect business organizations positively or negatively.

**6.0 TUTOR MARKED ASSIGNMENT**

How does the political system influence Business organizations?

**7.0 REFERENCES AND FURTHER READING**

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## UNIT 5 LEGAL ENVIRONMENT

**CONTENTS**

### 1.0 INTRODUCTION

The legal aspect of the general environment includes the legislation, regulation and court decisions that govern and regulate business behavior. In this unit we shall consider types of laws, sources of law, the legal system, business organizations and the law, contract law and agency.

### 2.0 OBJECTIVES

After reading this unit, you should be able to understand;

. Types of laws
. Sources of laws
. The legal system
. Business and the law
. Contract law
. Agency

### 3.0 MAIN COTENT

### 3.1 Types of laws

Laws relating to both individuals and organisations can be classified in a number of ways: international and national, public and private, criminal and civil. In practice there are no hard and fast rules to classification and some categories may overlap (e.g. where a person's behaviour is deemed to infringe different areas of law). Nevertheless, distinguishing laws in these terms serves as an aid to explanation and commentary, as well as helping to explain differences in liabilities and in legal remedies in Nigeria (e.g. a child under the age of 10 cannot be held criminally liable).

#### 3.1.1Public and private law

Put simply, **public law** is the law which concerns the state, whether in international agreements or disputes or in the relationship between the state and the individual. Thus public law consists of international treaties and conventions, constitutional law, administrative law and criminal law. In contrast, **private law** is law governing the relationships between individuals and comprises laws in respect of contract, tort, property, trusts and the family.

#### 3.1.2 Criminal law

**Criminal laws** relate to a legal wrong (criminal offence) — a breach of a public duty, punishable by the state on behalf of society.

### 3.1.3 Tort

A **tort** is a civil wrong other than a breach of contract or a breach of trust and is a duty fixed by law on all persons (e.g. road users have a duty in law not to act negligently). The law of tort, therefore, is concerned with those situations where the conduct of one party threatens or causes harm to the interests of another party and the aim of the law is to compensate for this harm. The most common torts are negligence, nuisance, defamation and trespass.

### 3.1.4 Trusts

A **trust** is generally defined as an 'equitable obligation imposing on one or more persons a duty of dealing with property, over which they have control, for the benefit of other persons who may enforce the obligation'. This property may be in the form of money or stocks and shares or in other types of asset, particularly land, where trusts have become a very common way of permitting persons who are forbidden to own legal estates in land to enjoy the equitable benefits of ownership. Partnerships, for example, cannot hold property as legal owners, so often several partners will act as trustees for all the partners (as a partnership has no separate corporate identity it cannot own property. Similarly, minors may not hold legal estates, so their interests must be protected by a trust, administered by an individual or an institution.

## 3.2 Sources of law

Laws invariably derive from a number of sources including custom, judicial precedent, legislation and international and supranational bodies.

### 3.2.1 Custom

Early societies developed particular forms of behaviour (or **customs)** which came to be accepted as social norms to be followed by the members of the community to which they applied. In Nigeria many of these customary rules ultimately became incorporated into a body of legal principles known as the common law. Today customs would be regarded as usage recognised by law, whether by judicial precedent **(case law)** or through statutory intervention and hence they are largely of historical interest. Occasionally, however, they are recognised by the courts as being of local significance and may be enforced accordingly as exceptions to the general law (e.g. concerning land usage).

### 3.2.2 Judicial precedent

Much of Nigerian law is derived from **judicial precedent** (previous decisions of the courts). In essence, judicial precedent is based on the rule that the previous decisions of a higher court must be followed by the lower courts - hence the significance of the court structure.

Cases cited must be considered carefully by judges to determine whether there are material differences in the case before the court and the earlier decision. To reach a decision, the court must find what is termed the *ratio decidendi* of the previous case. Put very simply, the *ratio* of a case are the essential steps in the legal reasoning which led the court to make that particular decision. Anything which cannot be regarded as a *rationes* is termed *obiter dicta* or 'things said by the way'. The whole of a dissenting judgment in a case is regarded as *obiter*. *Obiter dicta* are not binding but may be regarded as persuasive arguments if the facts of the case permit.

Clearly there are times when, perhaps because of the position of a court in the hierarchy, decisions are not to be regarded as binding precedent. However, if the judgment has been delivered by a jurisdiction which has a common law system or, most importantly, by the Judicial Committee of the Privy Council, then those decisions will be regarded as being of persuasive precedent, and may be used to help the court reach its own decision.

### 3.2.3 Legislation

A substantial proportion of current law - including laws governing the operations of business organizations are derived from legislation or statute. The initiative in this sphere lies effectively with the government of the day which can virtually guarantee a bill will become law, if it has a working majority in the House.

The vast majority of legislation emanates from government and takes the form of Acts of Parliament or delegated legislation. Acts of Parliament are those bills which have formally been enacted by Parliament and have received presidential assent and, they represent the supreme law of the land. In addition to creating new laws (e.g. to protect the consumer), statutes may also be used to change or repeal existing laws.

As its name suggests, **delegated legislation** is law made by a body or person to which Parliament has given limited powers of law-making

## 3.3 The legal system:

A country's legal system can be said to have two main functions: to provide an enabling mechanism within which individuals and organizations can exist and operate (e.g. companies are constituted by law) and to provide a means of resolving conflicts and of dealing with those who infringe the accepted standards of behaviour. These functions are carried out by a variety of institutions, including the government and the courts, and a detailed analysis of the legal system within a state would require consideration of the interrelationship between politics and law. The focus here is on the courts as a central element of a country's legal system, with responsibility for interpreting the law and administering justice in democratic societies. It is worth remembering, however, that political and governmental activity take place within a framework of law and that framework is itself a product of the political process at a variety of spatial levels.

### 3.4 Business organizations and the law

Business organisations have been described as transformers of inputs into output in the sense that they acquire and use resources to produce goods or services for consumption, all aspects of this transformation process are influenced by the law.

It is important to emphasis from the outset that the law not only constrains business activity (e.g. by establishing minimum standards of health and safety at work which are enforceable by law), but also assists it (e.g. by providing a means by which a business unit can have an independent existence from its members), and in doing so helps an enterprise to achieve its commercial and other objectives. In short, the legal environment within which businesses operate is an enabling as well as a regulatory environment and one which provides a considerable degree of certainty and stability to the conduct of business both within and between democratic states.

Given the extensive influence of the law on business organisations, it is clearly impossible to examine all aspects of the legal context within which firms function. Accordingly, in the analysis below attention is focused primarily on contract law, agency, and some of the more important statutes enacted to protect the interests of the consumer, since these are areas fundamental to business operation.

Below are examples of business activities and the legal influences.

| Business activity | Examples of legal influences |
|---|---|
| Establishing the organisation | Company laws, partnerships, business names |
| Acquiring resources | Planning laws, property laws, contract, agency |
| Business operations | Employment laws, health and safety laws, contract, agency Consumer laws, contract |

### 3.5 Contract Law: The Essentials

All businesses enter into contracts, whether with suppliers or employees or financiers or customers, and these contracts will be important — and possibly crucial — to the firm's operations. Such contracts are essentially agreements (oral or written) between two or more persons which are legally enforceable, provided they comprise a number of essential elements. These elements are: offer, acceptance, consideration, intention to create legal relations and capacity. Let us briefly consider these elements.

#### 3.5.1 Offer

Before parties enter into a contractual relationship, they usually engage in an informal relationship which may or may not result in a contract depending on whether the parties were able to reach a mutual agreement or not. To have an agreement, two or

more persons must arrive at a mutual understanding with one another; a party makes a proposition and another accepts the proposal.
An **offer therefore** is a declaration by the offeror and the offeree  that they intend to be legally bound by the terms stated in the offer if it is accepted by the offeree (e.g. to supply component parts at a particular price within a specified time period). This declaration may be made orally or in writing or by conduct between the parties and must be clear and unambiguous. Furthermore it should not be confused with an 'invitation to treat', which is essentially an invitation to make an offer, as is generally the case with advertisements, auctions and goods on display. Tenders are offers; a request for tenders is merely an invitation for offers to be made.

Termination of an offer can happen in several ways. Clearly an offer is ended when it is accepted but, that apart, an offer may be revoked at any time up to acceptance. It is of no consequence, legally, that an offer may be kept open for a certain time. It is only when some consideration is paid for 'buying the option' that the time factor is important and this 'buying the option' would generally be a separate contract in any case. If an offer is for a certain length of time, then later acceptance is ineffective, and even where there is no specified time limit, the courts will imply a reasonable time. Thus, in *Ramsgate Victoria Hotel v Monte fibre* (1866), shares in the hotel were offered for sale. After several months the offer was `accepted' but the court held that too much time had passed, bearing in mind that the purpose of the shares offer was to raise money.

Another way for an offer to come to an end is by the failure of a condition. Although a genuine offer is always held to be firm and certain, sometimes it may be conditional and not absolute. Thus, should A wish to buy a model car from B, B may agree but impose conditions on the deal, such as stating that A must collect at a specific time on a certain day at a particular place and must pay in cash. This is known as a 'condition precedent' and failure to complete the conditions will nullify the agreement. There is another type of condition, called a 'condition subsequent' where there is a perfectly good contract which runs until something happens. For instance, a garage may have a good contract with an oil company to buy petrol at *Lx* per 1000 litres until the price of oil at Rotterdam reaches *$x* per barrel. It is only when oil reaches the stipulated price that the contract ends.

### 3.5.2 Acceptance

Just as an offer must be firm and certain, the **acceptance** of an offer by the person(s) to whom it was made must be unequivocal and must not contain any alterations or additions. Acceptance as (Clark 2013) put it must be unconditional as the basis of a contract is the mutual consent of the parties concerned. The offeror made a proposition and the offeree indicates either expressly or by implication, his willingness to be bound on the terms stated in the offer. Accordingly, any attempt to alter the terms of an offer is regarded as a counter-offer and thus a rejection of the original offer, leaving the original offeror free to accept or decline as he or she chooses.

While acceptance of an offer normally occurs either in writing or verbally, it may also be implied by conduct. In the case of *Brogden v Metropolitan Railways Co.* (1877) Mr Brogden had supplied the company for many years without formalities. It was then decided to regularise the position and a draft agreement was sent to him. He inserted a new term, marked the draft 'approved' and returned it to the company where it was placed in a drawer and forgotten about, although both parties traded with each other on the terms of the draft for more than two years. Following a dispute, Mr Brogden claimed there was no contract. The House of Lords decided differently, saying that a contract had been created by conduct.

Inferring the acceptance of an offer by conduct is quite different from assuming that silence on the part of the offeree constitutes acceptance; silence cannot be construed as an acceptance. Equally, while the offeror may prescribe the method of acceptance (although this is regarded as permissive rather than directory), the offeree may not prescribe a method by which he or she will make acceptance. For instance, an offer may be made by fax, thus implying that a fast response is required; therefore a reply accepting the offer which is sent by second-class mail may well be treated as nugatory.

There are some rules about acceptance which are important. Postal acceptance, for example, is a good method of communication and one which is universally used by businesses, but to be valid for contractual purposes a communication must be properly addressed and stamped and then placed into the hands of the duly authorised person (i.e. the post box or over the counter). An acceptance sent to a home address may be nullified if there has been no indication that this is acceptable. Similarly, acceptance of the offer must be effectively received by the offeror where modern, instantaneous methods of communication are used. Thus if a telephone call is muffled by extraneous sound, then the acceptance must be repeated so that the offeror hears it clearly.

### 3.5.3 Consideration

This refers to the price which each side pays and the advantages or benefits each side enjoys for the promise or performance of a contract. That is to say, both the offeror and the offeree give or promise to give something of value to one another, this valuable consideration could be money, goods, services or given up of a legal right.
Together, offer and acceptance constitute the basis of an `agreement' or meeting of minds, provided the parties are clear as to what they are agreeing about (i.e. a *consensus ad idem* exists). However, a court will rarely enforce a 'naked promise'. As a result, a promise must have `consideration'. **Consideration** has been defined as some right, interest, profit or benefit accruing to one party or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other. In commercial contracts, the consideration normally takes the form of a cash payment in return for the goods or services provided (i.e. the `price' in a contract of sale). It does not need to be the full market value, but it must be something tangible. In contracts involving barter, however, which are sometimes used in international trade, goods are often exchanged for other goods or for some other form of non-pecuniary consideration (e.g. information or advice).

### Intention to create legal relations

Not every agreement is intended to create a legally binding relationship. For example, most domestic agreements — such as the division of household chores — would not constitute a contract recognised in law. In commercial agreements, however, it is generally accepted that both parties intend to make a legally binding contract and therefore it is unnecessary to include terms to this effect. Should such a presumption be challenged, the burden of proof rests with the person who disputes the presumption.

### 3.5.4 Capacity

A contract may be valid, voidable or void and one of the factors which determines this is the contractual capacity of the respective parties to the agreement. Normally speaking, an adult may make a contract with another adult which, if entered into freely and without any defects, and which is not contrary to public policy, is binding upon them both (i.e. valid). However, the law provides protection for certain categories of persons deemed not to have full contractual capacity (e.g. minors, drunks and the mentally disordered); hence the practice by firms of excluding people under the age of 18 from offers of goods to be supplied on credit.

Concentrating on minors - those below voting age - the law prescribes that they can only be bound by contracts for 'necessaries' (e.g. food, clothing, lodging) and contracts of employment that are advantageous or beneficial, as in the case of a job which contains an element of training or education. In most other instances, contracts with minors are void- or voidable and as such will be either unenforceable or capable of being repudiated by the minor.

In the case of business, legal capacity depends on the firm's legal status. Unincorporated bodies (e.g. sole traders, partnerships) do not have a distinct legal personality and hence the party to the agreement is liable for their part of the bargain. Limited companies, by contrast, have a separate legal identity from their members and hence contractual capacity rests with the company, within the limits laid down in the objects clause of its Memorandum of Association.

### 3.5.5 Other factors

To be enforceable at law a contract must be legal (i.e. not forbidden by law or contrary to public policy). Similarly, the agreement must have been reached voluntarily and result in a genuine meeting of minds. Consequently contracts involving mistakes of fact, misrepresentation of the facts, or undue influence or duress may be void or voidable, depending on the circumstances. In insurance contracts, for instance, the insured is required to disclose all material facts to the insurer (e.g. health record, driving record), otherwise a policy may be invalidated. In this context a 'material fact' is one which would affect the mind of a prudent insurer, even though the materiality may not be appreciated by the insured.

## 3.6 Agency

As business activity has become more specialised and complex, firms have increasingly turned to outside individuals to carry out specialist functions such as freight forwarding, overseas representation, insurance broking and commercial letting. These individuals (known as **agents)** are authorised by the individual or organisation hiring them (known as the **principal)** to act on their behalf, thus creating an agency relationship. As in other areas of commercial activity, special rules of law have evolved to regulate the behaviour of the parties involved in such a relationship.

In essence, the function of an agent is to act on behalf of a principal so as to effect a contract between the principal and a third party. The agent may be a 'servant' of the principal (i.e. under their control as in the case of a sales representative) or an 'independent contractor' (i.e. their own master as in the case of an estate agent) and will be operating with the consent of the principal whether by contract or implication. Having established a contractual relationship between the principal and the third party, the agent generally leaves the picture and usually has no rights and duties under the contract thus made.

With regard to an agent's specific obligations under an agency agreement, these are normally expressly stated under the terms of the agreement, although some may also be implied. Traditionally the common law of agency prescribes, however, that agents:

- *Obey the lawful instruction of the principal,* otherwise they may be in breach of contract.
- *Exercise due care and skill,* in order to produce a deal which is to the principal's best advantage.
- *Act personally,* rather than delegate, unless expressly or implicitly authorised to do so.
- *Act in good faith,* thus avoiding conflicts of interest or undisclosed profits and bribes.
- *Keep proper accounts,* which separate the principal's funds from those which belong personally to the agent.

Moreover, in so far as an agent is acting under the principal's authority, the principal is bound to the third party only by acts which are within the agent's authority to make. Consequently *ultra vires* acts only affect the principal if he or she adopts them by ratification and the agent may be liable for the breach of the implied warranty of authority to the third party.

In addition to these common law duties owed by the principal, the Commercial agents in transactions involving the sale or purchase of goods, also perform the following duties to their principals:

- a commercial agent must look after the interests of her/his principal and act dutifully and in good faith;
- make proper efforts to negotiate and, where appropriate, conclude the transactions;
- communicate to their principal all the necessary information available to them;
- comply with reasonable instructions given by the principal.The duties of the principal to the agent on the other hand include:
- to act dutifully and in good faith;
- to provide the commercial agent with the necessary documentation relating to the goods in question;
- to obtain necessary information for the agent. This is a higher standard, perhaps

requiring searching for data, than under the common law, where all the principal needs to do is to disclose information in their possession;

- to notify the agent within a reasonable period of time if the usual volume of trade is likely to be significantly reduced;
- to inform the agent within a reasonable period of time of the principal's acceptance, refusal, or non acceptance of a commercial transaction arranged by the agent.

### 3.7 Law and the consumer

Neo-classical economic theory tends to suggest that laws to protect the consumer are unnecessary. However, modern economists (in particular behavioural economists) have shown that the traditional assumption of working markets is not necessarily reliable, so regulation is sometimes required. If individuals are behaving rationally when consuming goods and services, they would arrange their consumption to maximise their satisfaction (or 'utility'), in the words of an economist. Products which because of poor quality or some other factor reduced a consumer's utility would be rejected in favour of those which proved a better alternative and this would act as an incentive to producers (and retailers) to provide the best products. In effect, market forces would ensure that the interest of the consumer was safeguarded as suppliers in a competitive market arranged their production to meet the needs and wants of rational consumers.

The 'ideal' view of how markets work is not always borne out in practice. Apart from the fact that consumers do not always act rationally, they often do not have access to information which might influence their choice of products; in some cases they may not even have a choice of products (e.g. where a monopoly exists) although this situation can change over time (e.g. through privatisation of state monopolies). Also, given the respective resources of producers and consumers, the balance of power in the trading relationship tends to favour producers who can influence consumer choices using a range of persuasive techniques, including advertising.

Taken together, these and other factors call into question the assumption that the consumer is 'sovereign' and hence the extent to which individuals have inherent protection in the marketplace from powerful (and, in some cases, unscrupulous) suppliers. It is in this context that the law is seen to be an important counterbalance in a contractual relationship where the consumer is, or may be, at a disadvantage, and this can be said to provide the basis of legal intervention in this area.

Existing laws to protect consumers are both civil and criminal and the relevant rights, duties and liabilities have been created or imposed by common law (especially contract and tort) or by statute. Significantly, as the examples below illustrate, a large element of current consumer law has resulted from statutory intervention, much of it in the last 30 years. Indeed, a sizeable quality of consumer protection law comes from the continental orgaizations e.g  ECOWAS, EU by way of directives. These laws — covering areas as diverse as trade descriptions, the sale of goods and services, and consumer credit and product liability — indicate a growing willingness on the part of governments to respond to the complaints of consumers and their representative organisations and to use legislation to regulate the relationship between business organisations and their customers. Europe is keen to encouraging consumers to take advantage of cross-border EU markets by harmonising consumer protection. To this end Europe has been adopting consumer protection directives, the most significant recent one being the Unfair Commercial Practices Directive, which has caused a lot of the pre-existing domestic law to be replaced.

## 4.0 CONCLUSION

The laws of a country in which an organization operates affect its operations. The government can affect business organizations through these laws. Organizations can also take advantages of the laws.

## 5.0 SUMMARY

Organizations are guided in its operation by the laws of the land in which it operates. The sources of these laws could be the custom of the land, judicial precedent, and legislation among others. Unfortunately, many managers are not aware of the potential legal risks associated with traditional managerial decisions like recruiting, hiring, and firing employees. Companies also face potential legal risks from customer initiated lawsuits. Business managers must therefore try as much as possible to understand the laws of the country in which it operates so that they can appropriately take the advantages of the opportunities and at the same time avoid the pit falls.

## 6.0 TUTOR MARKED ASSIGNMENT

How can a company take advantages of the laws of a country in which it operates?

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**Unit 6 The Economic Environment**



## 1.0 INTRODUCTION

Business organisations operate in an economic environment which shapes, and is shaped by, their activities. In market-based economies this environment comprises variables which are dynamic, interactive and mobile and which, in part, are affected by government in pursuit of its various roles in the economy. As a vital component in the macro economy, government exercises a significant degree of influence over the flow of income and hence over the level and pattern of output by the public and private sectors. Other key influences include a country's financial institutions and the international economic organizations and groupings to which it belongs or subscribes.

Business activity not only is shaped by the economic context in which it takes place, but helps to shape that context; consequently the success or otherwise of government economic policy depends to some degree on the reactions of both the firms and the markets (e.g. the stock market) which are affected by government decisions. The economic influences operate at different levels and this can affect businesses either favourably or adversely.

## 2.0 OBJECTIVES

Having read this unit you should be able to:

understand the concept of economic scarcity

- compare alternative economic systems and their underlying principles and discuss
  the problems of transition from a centrally planned to a market-based economy
- illustrate flows of income, output and expenditure in a market economy and account for changes in the level and pattern of economic activity
- analyse the role of government in the macroeconomy, including government macroeconomic policies and the objectives on which they are based
- explain the role of financial institutions
- identify the key international economic institutions and organisations which influence the business environment in open, market economies

### 3.1 The concept of economic scarcity

Like politics, the term **economic** tends to be used in a variety of ways and contexts to describe certain aspects of human behaviour, ranging from activities such as producing, distributing and consuming, to the idea of frugality in the use of a resource (e.g. being 'economical' with the truth). Modern definitions stress how such behaviour, and the institutions in which it takes place (e.g. households, firms, governments, banks), are concerned with the satisfaction of human needs and wants through the transformation of resources into goods and services which are consumed by society. These processes are said to take place under conditions of **economic scarcity.**

The economist's idea of 'scarcity' centres on the relationship between a society's needs and wants and the resources available to satisfy them. In essence, economists argue that whereas needs and wants tend to be unlimited, the resources which can be used to meet those needs and wants are finite and accordingly no society at any time has the capacity to provide for all its actual or potential requirements. The assumption here is that both individual and collective needs and wants consistently outstrip the means available to satisfy them, as exemplified, for instance, by the inability of governments to provide instant health care, the best roads, education, defence, railways, and so on, at a time and place and of a quality convenient to the user. This being the case, 'choices' have to be made by both individuals and society concerning priorities in the use of resources, and every choice inevitably involves a 'sacrifice' (i.e. forgoing an alternative). Economists describe this sacrifice as the opportunity cost or real cost of the decision that is taken (e.g. every Naira spent on the health service is a Naira not spent on some other public service) and it is one which is faced by individuals, organisations (including firms), governments and society alike.

From a societal point of view the existence of economic scarcity poses three serious problems concerning the use of resources:

1. What to use the available resources for? That is, what goods and services should be produced (or not produced) with the resources (sometimes described as the 'guns v. butter' argument)?
2. How best to use those resources? For example, in what combinations, using what techniques and what methods?
3. How best to distribute the goods and services produced? That is, who gets what, how much and on what basis?

In practice, of course, these problems tend to be solved in a variety of ways, including barter (voluntary, bilateral exchange), price signals and the market queuing and rationing, government instruction and corruption (e.g. resources allocated in exchange for personal favours), and examples of each of these solutions can be found in most, if not all, societies, at all times. Normally, however, one or other main approach to resource allocation tends to predominate and this allows analytical distinctions to be made between different types of economic system. One important distinction is between those economies which are centrally planned and those which operate predominantly through market forces, with prices forming the integrating mechanism. Understanding this distinction is fundamental to an examination of the way in which business is conducted and represents the foundation on which much of the subsequent analysis is built.

**The centrally planned economy**

In this type of economic system - associated with the post - Second World War socialist economies of Eastern Europe, China, Cuba and elsewhere - most of the key decisions on production are taken by a central planning authority, normally the state and its agencies. Under this arrangement, the state typically:

- owns and/or controls the main economic resources;
- establishes priorities in the use of those resources;
- sets output targets for businesses which are largely under state ownership and/or control;
- directs resources in an effort to achieve these predetermined targets; and

- seeks to co-ordinate production in such a way as to ensure consistency between output and input demands.

The fact that an economy is centrally planned does not necessarily imply that all economic decisions are taken at central level; in many cases decision making may be devolved to subordinate agencies, including local committees and enterprises. Ultimately, however, these agencies are responsible to the centre and it is the latter which retains overall control of the economy and directs the use of scarce productive resources.

The problem of co-ordinating inputs and output in a modern planned economy is, of course, a daunting task and one which invariably involves an array of state planners and a central plan or blueprint normally covering a number of years (e.g. a five-year plan). Under such a plan, the state planners would establish annual output targets for each sector of the economy and for each enterprise within the sector and would identify the inputs of materials, labour and capital needed to achieve the set targets and would allocate resources accordingly. Given that the outputs of some industries (e.g. agricultural machinery) are the inputs of others (e.g. collective farms), it is not difficult to see how the overall effectiveness of the plan would depend in part on a high degree of co-operation and co-ordination between sectors and enterprises, as well as on good judgement, good decisions and a considerable element of good luck. The available evidence from planned economies suggests that none of these can be taken for granted and each is often in short supply.

Even in the most centralized economies, state planning does not normally extend to telling individuals what they must buy in shops or how to use their labour, although an element of state direction at times may exist (e.g. conscription of the armed forces). Instead, it tends to condition what is available for purchase and the prices at which exchange takes place, and both of these are essentially the outcome of political choices, rather than a reflection of consumer demands. All too often consumers tend to be faced by queues and 'black markets' for some consumer products and overproduction of others, as state enterprises strive to meet targets frequently unrelated to the needs and wants of consumers. By the same token, businesses which make losses do not have to close down, as the state would normally make additional funds available to cover any difference between sales revenue and costs. This being the case, the emphasis at firm level tends to be more on meeting targets than on achieving efficiency in the use of resources and hence a considerable degree of duplication and wastage tends to occur.

In such an environment, the traditional entrepreneurial skills of efficient resource management, price setting and risk taking have little, if any, scope for development and managers behave essentially as technicians and bureaucrats, administering decisions largely made elsewhere. Firms, in effect, are mainly servants of the state and their activities are conditioned by social and political considerations, rather than by the needs of the market - although some market activity normally occurs in planned economies (especially in agriculture and a number of private services). Accordingly, businesses and their employees are not fully sensitised to the needs of the consumer and as a result quality and choice (where it exists) may suffer, particularly where incentives to improved efficiency and performance are negligible. Equally, the system tends to encourage bribery and corruption and the development of a substantial black market, with differences in income, status and political influence being an important determinant of individual consumption and of living standards.

**The free-market economy**

The free-market (or capitalist) economy stands in direct contrast to the centrally planned system. Whereas in the latter the state controls most economic decisions, in the former the key economic agencies are private individuals (sometimes called 'households') and firms, and these interact in free markets, through a system of prices, to determine the allocation of resources.

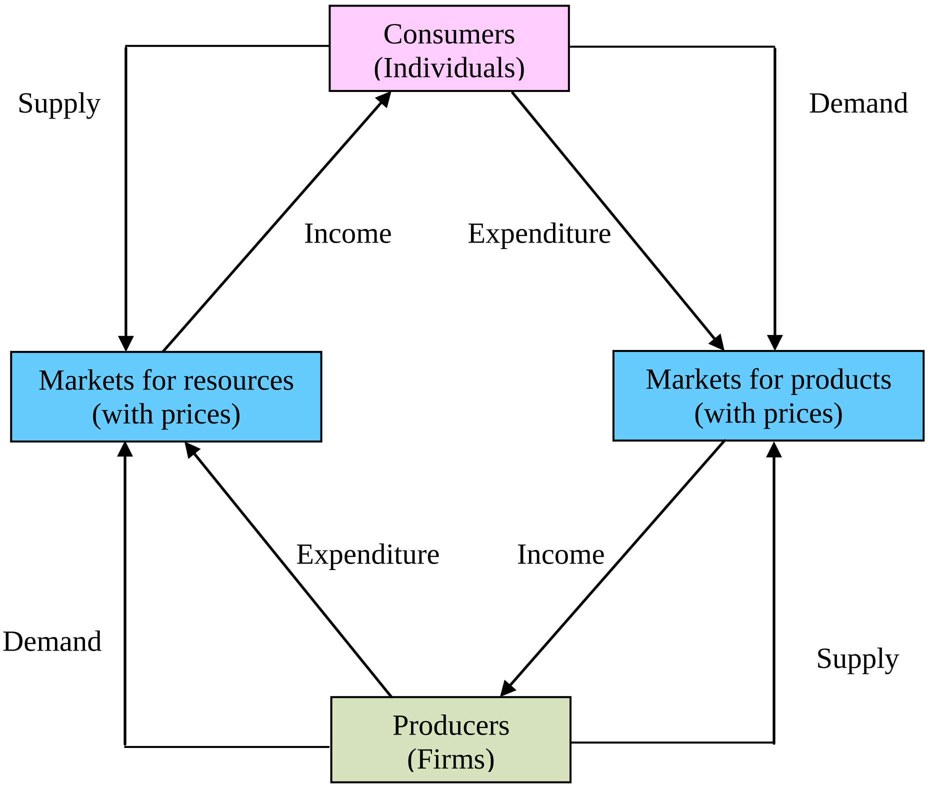
The key features of this type of economic system are as follows:

- Resources are in private ownership and the individuals owning them are free to use them as they wish.
- Firms, also in private ownership, are equally able to make decisions on production, free from state interference.
- No blueprint (or master plan) exists to direct production and consumption.
- Decisions on resource allocation are the result of a decentralised system of markets and prices, in which the decisions of millions of consumers and hundreds of thousands of firms are automatically co-ordinated.
- The consumer is sovereign, i.e. dictates the pattern of supply and hence the pattern of resource allocation.

In short, the three problems of what to produce, how to produce and how to distribute are solved by market forces.

The diagram below illustrates the basic operation of a market economy. In essence, individuals are owners of resources (e.g. labour) and consumers of products; firms are users of resources and producers of products. What products are produced - and hence how resources are used - depends on consumers, who indicate their demands by purchasing (i.e. paying the price) or not purchasing, and this acts as a signal to producers to acquire the resources necessary (i.e. pay the price) to meet the

The market economy




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

preferences of consumers. If consumer demands change, for whatever reason, this will cause an automatic reallocation of resources, as firms respond to the new market conditions. Equally, competition between producers seeking to gain or retain customers is said to guarantee that resources are used efficiently and to ensure that the most appropriate production methods (i.e. how to produce) are employed in the pursuit of profits.

The distribution of output is also determined by market forces, in this case operating in the markets for productive services. Individuals supplying a resource (e.g. labour) receive an income (i.e. a price) from the firms using that resource and this allows them to purchase goods and services in the markets for products, which in turn provides an income for firms that can be spent on the purchase of further resources. Should the demand for a particular type of productive resource increase - say, as a result of an increase in the demand for the product produced by that resource - the price paid to the provider of the resource will tend to rise and hence, other things being equal, allow more output to be purchased. Concomitantly, it is also likely to result in a shift of resources from uses which are relatively less lucrative to those which are relatively more rewarding.

In practice, of course, no economy operates entirely in the manner suggested above; firms after all are influenced by costs and supply decisions as well as by demand and generally seek to shape that demand, as well as simply responding to it. Nor for that matter is a market-based economy devoid of government involvement in the process of resource allocation, as evidenced by the existence of a public sector responsible for substantial levels of consumption and output and for helping to shape the conditions under which the private sector operates. In short, any study of the market economy needs to incorporate the role of government and to examine, in particular, its influence on the activities of both firms and households.

**3.2 The Macroeconomic Levels of analysis**

Economics is concerned with the study of how society deals with the problem of scarcity and the resultant problems of what to produce, how to produce and how to distribute. Within this broad framework the economist typically distinguishes between two types of analysis:

1. Microeconomic analysis, which is concerned with the study of economic decision taking by both individuals and firms.
2. Macroeconomic analysis, which is concerned with interactions in the economy as a whole (i.e. with economic aggregates).

The microeconomic approach is exemplified by the analysis of markets and prices which shows, for example, how individual consumers in the market for beer might be affected by a price change. This analysis could be extended to an investigation of how the total market might respond to a movement in the price, or how a firm's (or market's) decisions on supply are affected by changes in wage rates or production techniques or some other factor. Note that in these examples, the focus of attention is on decision-taking by individuals and firms in a single industry, while interactions between this industry and the rest of the economy are ignored: in short, this is what economists call a 'partial analysis'.

In reality, of course, all sectors of the economy are interrelated to some degree. A pay award, for example, in the beer industry (or in a single firm) may set a new pay norm that workers in other industries take up and these pay increases may subsequently influence employment, production and consumer demand in the economy as a whole, which could also have repercussions on the demand for beer. Sometimes such repercussions may be relatively minor and so effectively can be ignored. In such situations the basic microeconomic approach remains valid.

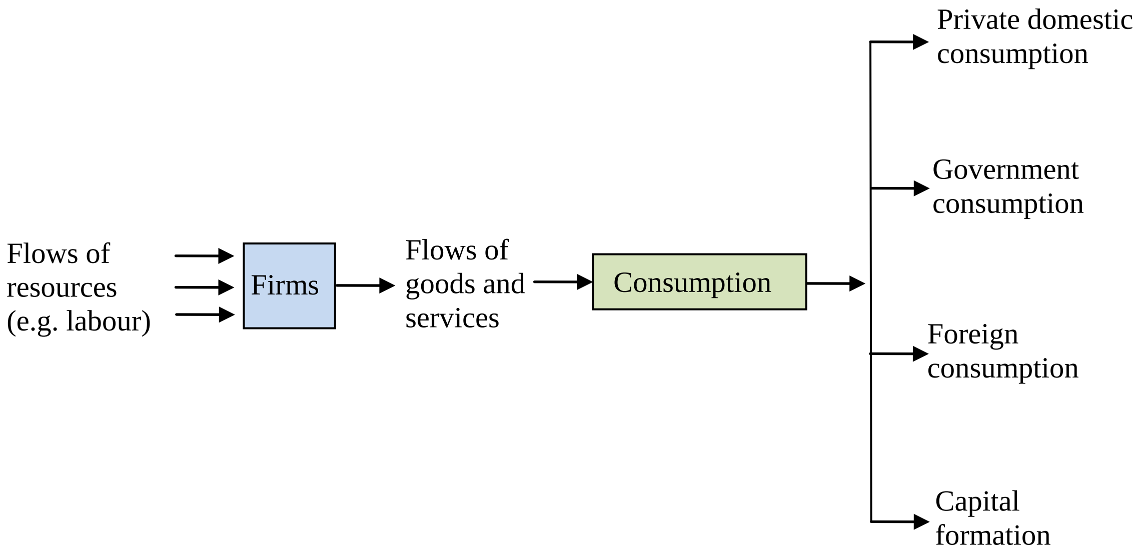
In contrast, macroeconomics recognises the interdependent nature markets and studies the interaction in the economy as a whole, dealing with such questions as the overall level of employment, the rate of inflation, the percentage growth of output in the economy and many other economy-wide aggregates - exemplified, for instance, by the analysis of international trade and by the macroeconomic model. It should be pointed out, however, that while the distinction between the micro and macro approaches remains useful for analytical purposes, in many instances the two become intertwined.

## The 'Flows' of Economic Activity

Economic activity can be portrayed as a flow of economic resources into firms (i.e. productive organisations), which are used to produce output for consumption, and a corresponding flow of payments from firms to the providers of those resources, who use them primarily to purchase the goods and services produced. These flows of income and expenditure accordingly represent the fundamental activities of an economy at work. The Figure below illustrates the flow of resources and of goods and services in the economy - what economists describe as real flows.

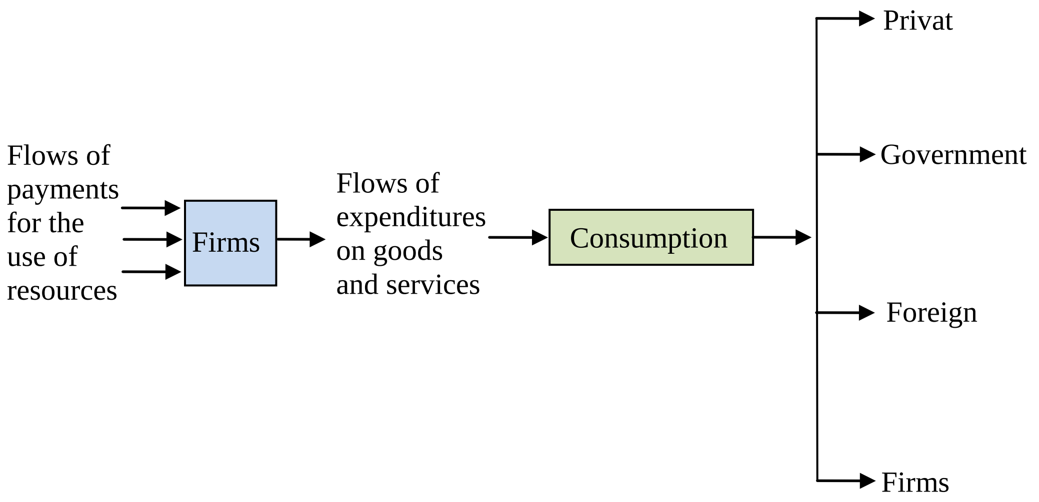
In effect, firms use economic resources to produce goods and services, which are consumed by private individuals (private domestic consumption) or government (government consumption) or by overseas purchasers (foreign consumption) or by other firms (capital formation). This consumption gives rise to a flow of expenditures that represents an income for firms, which they use to purchase further resources in order to produce further output for consumption. This flow of income and expenditures is shown in the next figure (income flows in the economy).

**Real flows' in the economy**




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall. P.

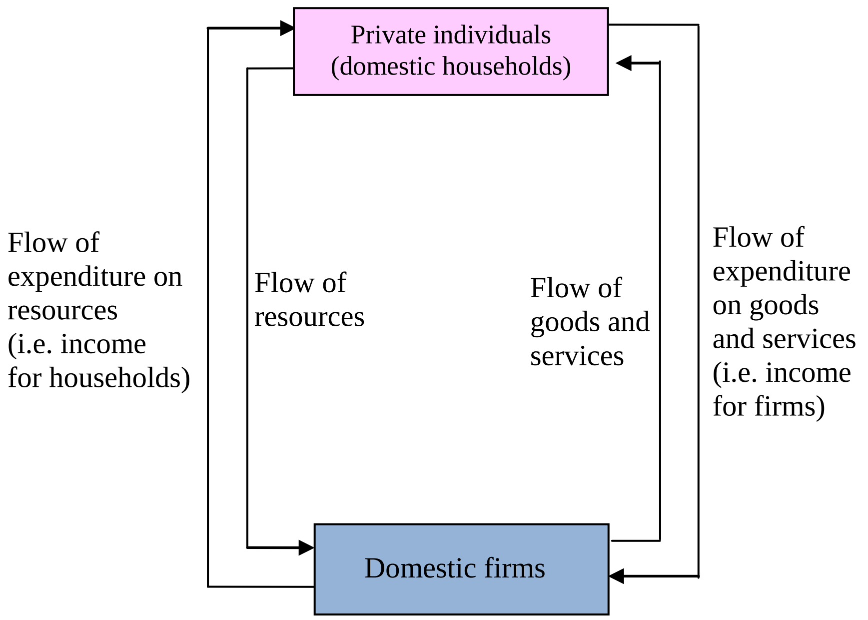
**Income flows in the economy**




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

The interrelationship between income flows and real flows can be seen by combining the two diagrams into one, which for the sake of simplification assumes only two groups operate in the economy: firms as producers and users of resources, and private individuals as consumers and providers of those resources. Real flows are shown by the arrows moving in an anti-clockwise direction, income flows by the arrows flowing in a clockwise direction.

A simplified model of real flows and income flows




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

Despite a degree of over-simplification, the model of the economy illustrated in the above figure is a useful analytical tool which highlights some vitally important aspects of economic activity which are of direct relevance to the study of business. The model shows, for example, that:

1. Income flows around the economy, passing from households to firms and back to households and on to firms, and so on, and these income flows have corresponding real flows of resources, goods and services.
2. What constitutes an income to one group (e.g. firms) represents an expenditure to another (e.g. households), indicating that income generation in the economy is related to spending on consumption of goods and services and on resources (e.g. the use of labour).
3. The output of firms must be related to expenditure by households on goods and services, which in turn is related to the income the latter receive from supplying resources.
4. The use of resources (including the number of jobs created in the economy) must also be related to expenditure by households on consumption, given that resources are used to produce output for sale to households.
5. Levels of income, output, expenditure and employment in the economy are, in effect, interrelated.

From the point of view of firms, it is clear from the model that their fortunes are intimately connected with the spending decisions of households and any changes in the level of spending can have repercussions for business activity at the micro as well as the macro level. In the late 1980s, for instance, the British economy went into recession, largely as a result of a reduction in the level of consumption that was brought about by a combination of high interest rates, a growing burden of debt from previous bouts of consumer spending, and a decline in demand from some overseas markets also suffering from recession. While many businesses managed to survive the recession, either by drawing from their reserves or slimming down their operations, large numbers of firms went out of business, as orders fell and costs began to exceed revenue. As a result, output in the economy fell, unemployment grew, investment by firms declined, and house prices fell to a point where some house owners owed more on their mortgage than the value of their property (known as 'negative equity'). The combined effect of these outcomes was to further depress demand, as individuals became either unwilling or unable to increase spending and as firms continued to shed labour and to hold back on investment. By late 1992, few real signs of growth in the economy could be detected, unemployment stood at almost 3 million, and business confidence remained persistently low, (Worthington I, and Britton. C, 2009).

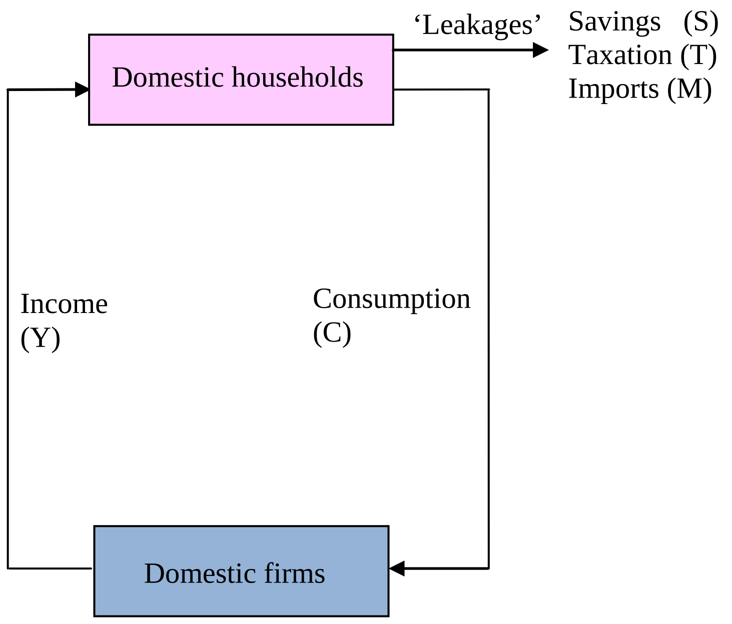
The gradual recovery of the British economy from mid-I993 - brought about by a return in consumer confidence in the wake of a cut in interest rates - further emphasises the key link between consumption and entrepreneurial activity highlighted in the model. Equally, it shows, as did the discussion on the recession, that a variety of factors can affect spending (e.g. government policy on interest rates) and that spending by households is only one type of consumption in the real economy. In order to gain a clearer view of how the economy works and why changes occur over time, it is necessary to refine the basic model by incorporating a number of other key variables influencing economic activity. These variables - which include savings, investment spending, government spending, taxation and overseas trade - are discussed below.

**Changes in Economic Activity**

The level of spending by consumers on goods and services produced by indigenous firms is influenced by a variety of factors. For a start, most households pay tax on income earned, which has the effect of reducing the level of income available for consumption. Added to this, some consumers prefer to save (i.e. not spend) a proportion of their income or to spend it on imported products, both of which mean that the income of domestic firms is less than it would have been had the income been spent with them. Circumstances such as these represent what economists call a leakage (or withdrawal) from the circular flow of income and help to explain why the revenue of businesses can fluctuate over time.

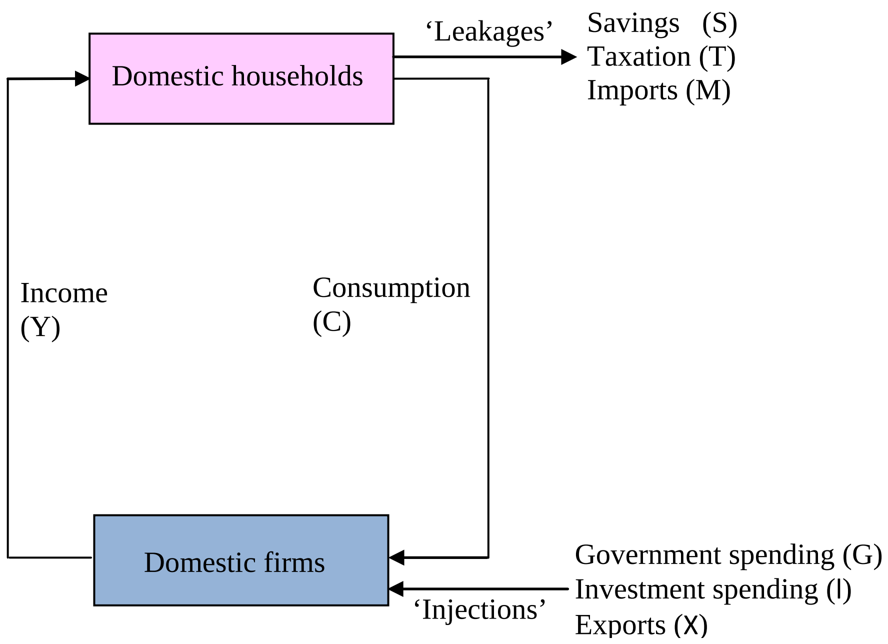
At the same time as such 'leakages' are occurring, additional forms of spending in the economy are helping to boost the potential income of domestic firms. Savings by some consumers are often borrowed by firms to spend on investment in capital equipment or plant or premises (known as investment spending) and this generates income for firms producing capital goods. Similarly, governments use taxation to spend on the provision of public goods and services (public or government expenditure) and overseas buyers purchase products produced by indigenous firms (export spending). Together, these additional forms of spending represent an injection of income into the circular flow.

The circular flow of income with ‘leakages’




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall

The circular flow of income with 'injections' added




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

While the revised model of the economy illustrated in the Figure is still highly simplified (e.g. consumers also borrow savings to spend on consumption or imports; firms also save and buy imports; governments also invest in capital projects), it demonstrates quite clearly that fluctuations in the level of economic activity are the result of changes in a number of variables, many of which are outside the control of firms or governments. Some of these changes are autonomous (i.e. spontaneous), as in the case of an increased demand for imports, while others may be deliberate or overt, as when the government decides to increase its own spending or to reduce taxation in order to stimulate demand. Equally, from time to time an economy may be subject to 'external shocks', such as the onset of recession among its principal trading partners or a significant price rise in a key commodity (e.g. the recent oil price in 2014/15), which can have an important effect on internal income flows. Taken together, these and other changes help to explain why demand for goods and services constantly fluctuates and why changes occur not only in an economy's capacity to produce output, but also in its structure and performance over time.

It is important to note that where changes in spending do occur, these invariably have consequences for the economy that go beyond the initial 'injection' or 'withdrawal' of income. For example, a decision by government to increase spending on infrastructure would benefit the firms involved in the various projects and some of the additional income they receive would undoubtedly be spent on hiring labour. The additional workers employed would have more income to spend on consumption and this would boost the income for firms producing consumer goods, which in turn may hire more staff, generating further consumption and so on. In short, the initial increase in spending by government will have additional effects on income and spending in the economy, as the extra spending circulates from households to firms and back again. Economists refer to this as the multiplier effect to emphasise the reverberative consequences of any increase or decrease in spending by consumers, firms, governments or overseas buyers.

Multiple increases in income and consumption can also give rise to an 'accelerator effect, which is the term used to describe a change in investment spending by firms as a result of a change in consumer spending. In the example above it is possible that the increase in consumption caused by the increase in government spending may persuade some firms to invest in more stock and capital equipment to meet increased consumer demands. Demand for capital goods will therefore rise, and this could cause further increases in the demand for industrial products (e.g. components, machinery) and also for consumer goods, as firms seek to increase their output to meet the changing market conditions. Should consumer spending fall, a reverse accelerator may occur and the same would apply to the multiplier as the reduction in consumption reverberates through the economy and causes further cuts in both consumption and investment. As Peter Donaldson has suggested, everything in the economy affects everything else; the economy is dynamic, interactive and mobile and is far more complex than implied by the model used in the analysis above.

**Government And The Macroeconomy: Objectives**

Notwithstanding the complexities of the real economy, the link between business activity and spending is clear to see. This spending, as indicated above, comes from consumers, firms, governments and external sources and collectively can be said to represent total demand in the economy for goods and services. Economists frequently indicate this with the following notation:

**Aggregate Monetary Demand** = Consumer spending + Investment spending
+ Government spending + Export spending
- Import spending

or AMD=C+1+G+X-M

Within this equation, consumer spending (C) is regarded as by far the most important factor in determining the level of total demand.

While economists might disagree about what are the most significant influences on the component elements of AMD, it is widely accepted that governments have a crucial role to play in shaping demand, not only in their own sector but also on the market side of the economy. Government policies on spending and taxation, or on interest rates, clearly have both direct and indirect influences on the behaviour of individuals and firms, which can affect both the demand and supply side of the economy in a variety of ways. Underlying these policies are a number of key objectives which are pursued by government as a prerequisite to a healthy economy and which help to guide the choice of policy options. Understanding the broad choice of policies available to government, and the objectives associated with them, is of prime importance to students of the business environment.

Most governments appear to have a number of key economic objectives, the most important of which are normally the control of inflation, the pursuit of economic growth, a reduction in unemployment, the achievement of an acceptable balance of payments situation, controlling public (i.e. government) borrowing, and a relatively stable exchange rate.

**3.3The Economic Conditions**

Important economic conditions such as inflation, economic growth, unemployment, balance of payments are some of the economic factors in the economic environment that affect business organization operations. In what follows, we shall briefly discuss some of these factors

**Inflation**

Inflation is usually defined as an upward and persistent movement in the general level of prices over a given period of time; it can also be characterized as a fall in the value of money. For governments reducing such movements to a minimum is seen as a primary economic objective.

Explanations as to why prices tend to rise over time vary considerably, but broadly speaking fall into two main categories. First, supply-siders tend to focus on rising production costs - particularly wages, energy and imported materials - as a major reason for inflation, with firms passing on increased costs to the consumer in the form of higher wholesale and/or retail prices. Second, excessive demand in the economy, brought about, for example, by tax cuts, cheaper borrowing or excessive government spending, which encourages firms to take advantage of the consumer's willingness to spend money by increasing their prices. Where indigenous firms are unable to satisfy all the additional demand, the tendency is for imports to increase. This may not only cause further price rises, particularly if imported goods are more expensive or if exchange rate movements become unfavourable, but also can herald a deteriorating balance of payments situation and difficult trading conditions for domestic businesses.

Government concern with inflation - which crosses both party and state boundaries - reflects the fact that rising price levels can have serious consequences for the economy in general and for businesses in particular, especially if a country's domestic inflation rates are significantly higher than those of its main competitors. In markets where price is an important determinant of demand, rising prices may result in some businesses losing sales, and this can affect turnover and may ultimately affect employment if firms reduce their labour force in order to reduce their costs. Added to this, the uncertainty caused by a difficult trading environment may make some businesses unwilling to invest in new plant and equipment, particularly if interest rates are high and if inflation looks unlikely to fall for some time. Such a response, while understandable, is unlikely to improve a firm's future competitiveness or its ability to exploit any possible increases in demand as market conditions change.

Rising prices may also affect businesses by encouraging employees to seek higher wages in order to maintain or increase their living standards. Where firms agree to such wage increases, the temptation, of course, is to pass this on to the consumer in the form of a price rise, especially if demand looks unlikely to be affected to any great extent. Should this process occur generally in the economy, the result may be a wages/prices inflationary spiral, in which wage increases push up prices which push up wage increases which further push up prices and so on. From an international competitive point of view, such an occurrence, if allowed to continue unchecked, could be disastrous for both firms and the economy.

**Economic Growth**

Growth is an objective shared by governments and organisations alike. For governments, the aim is usually to achieve steady and sustained levels of non-inflationary growth, preferably led by exports (i.e. export-led growth). Such growth is normally indicated by annual increases in real national income or gross domestic product (where ‘real’ = allowing for inflation, and 'gross domestic product (GDP)’ = the economy's annual output of goods and services measured in monetary terms).2 To compensate for changes in the size of the population, growth rates tend to be expressed in terms of real national income per capita (i.e. real GDP divided by population).

Exactly what constitutes desirable levels of growth is difficult to say, except in very broad terms. If given a choice, governments would basically prefer:

- steady levels of real growth (e.g. 3-4 per cent p.a.), rather than annual increases in output which vary widely over the business cycle;
- growth rates higher than those of one's chief competitors; and
- growth based on investment in technology and on increased export sales, rather than on excessive government spending or current consumption.

It is worth remembering that, when measured on a monthly or quarterly basis, increases in output can occur at a declining rate and GDP growth can become negative. From a business point of view, the fact that increases in output are related to increases in consumption suggests that economic growth is good for business prospects and hence for investment and employment, and by and large this is the case. The rising living standards normally associated with such growth may, however, encourage increased consumption of imported goods and services at the expense of indigenous producers, to a point where some domestic firms are forced out of business and the economy's manufacturing base becomes significantly reduced (often called deindustrialisation). Equally, if increased consumption is based largely on excessive state spending, the potential gains for businesses may be offset by the need to increase interest rates to fund that spending (where government borrowing is involved) and by the tendency of government demands for funding to crowd out the private sector's search for investment capital. In such cases, the short-term benefits from government-induced consumption may be more than offset by the medium- and long-term problems for the economy that are likely to arise.

Where growth prospects for the economy look good, business confidence tends to increase, and this is often reflected in increased levels of investment and stock holding and ultimately in levels of employment.

## Unemployment

In most democratic states the goal of full employment is no longer part of the political agenda as this can hardly be achieved, instead government pronouncements on employment tend to focus on job creation and maintenance and on developing the skills appropriate to future demands. The consensus seems to be that in technologically advanced market-based economies some unemployment is inevitable and that the basic aim should be to reduce unemployment to a level which is both politically and socially acceptable.

As with growth and inflation, unemployment levels tend to be measured at regular intervals (e.g. monthly, quarterly, annually) and the figures are often adjusted to take into account seasonal influences (e.g. school-leavers entering the job market). In addition, the statistics usually provide information on trends in long-term unemployment, areas of skill shortage and on international comparisons, as well as sectoral changes within the economy. All of these indicators provide clues to the current state of the economy and to the prospects for businesses in the coming months and years, but need to be used with care. Unemployment, for example, tends to continue rising for a time even when a recession is over; equally, it is not uncommon for government definitions of unemployment to change or for international unemployment data to be based on different criteria.

The broader social and economic consequences of high levels of unemployment are well documented: it is a waste of resources, it puts pressure on the public services and it is frequently linked with growing social and health problems. Its implication for businesses, however, tends to be less clear-cut. On the one hand, a high level of unemployment implies a pool of labour available for firms seeking workers (though not necessarily with the right skills), generally at wage levels lower than when a shortage of labour occurs. On the other hand, it can also give rise to a fall in overall demand for goods and services which could exacerbate any existing deflationary forces in the economy, causing further unemployment and with it further reductions in demand. Where this occurs, economists tend to describe it as cyclical unemployment (i.e. caused by a general deficiency in demand) in order to differentiate it from unemployment caused by a deficiency in demand for the goods produced by a particular industry (structural unemployment) or by the introduction of new technology which replaces labour (technological unemployment).

## Balance of Payments

A country's balance of payments is essentially the net balance of credits (earnings) and debits (payments) arising from its international trade over a given period of time. Where credits exceed debits a balance of payments surplus exists; the opposite is described as a deficit. Understandably governments tend to prefer either equilibrium in the balance of payments or surpluses, rather than deficits. However, it would be fair to say that for some governments facing persistent balance of payments deficits, a sustained reduction in the size of the deficit may be regarded as signifying a 'favourable' balance of payments situation.

Like other economic indicators, the balance of payments statistics come in a variety of forms and at different levels of disaggregation, allowing useful comparisons to be made not only on a country's comparative trading performance, but also on the international competitiveness of particular industries and commodity groups or on the development or decline of specific external markets. Particular emphasis tends to be given to the balance of payments on current account, which measures imports and exports of goods and services and is thus seen as an indicator of the competitiveness of an economy's firms and industries. Sustained current account surpluses tend to suggest favourable trading conditions, which can help to boost growth, increase employment and investment and create a general feeling of confidence amongst the business community. They may also give rise to surpluses which domestic firms can use to finance overseas lending and investment, thus helping to generate higher levels of corporate foreign earnings in future years.

**Controlling Public Borrowing**

Governments raise large amounts of revenue annually, mainly through taxation, and use this income to spend on a wide variety of public goods and services. Where annual revenue exceeds government spending, a budget surplus occurs and the excess is often used to repay past debt. The accumulated debt of past and present governments represents a country's National Debt.

In practice, most governments often face annual budget deficits rather than budget surpluses and hence have a 'public sector borrowing requirement. While such deficits are not inevitably a problem, in the same way that a small personal overdraft is not necessarily critical for an individual, large scale and persistent deficits are generally seen as a sign of an economy facing current and future difficulties which require urgent government action. The overriding concern over high levels of public borrowing tends to be focused on:

1. Its impact on interest rates, given that higher interest rates tend to be needed to attract funds from private sector uses to public sector uses.
2. The impact of high interest rates on consumption and investment and hence on the prospects of businesses.
3. The danger of the public sector 'crowding out' the private sector's search for funds for investment.
4. The opportunity cost of debt interest, especially in terms of other forms of public spending.
5. The general lack of confidence in the markets about the government's ability to control the economy and the likely effect this might have on inflation, growth and the balance of payments.
6. The need to meet the 'convergence criteria' laid down at Maastricht for entry to the single currency (e.g. central government debt no higher than 3 per cent of GDP).

The consensus seems to be that controlling public borrowing is best tackled by restraining the rate of growth of public spending rather than by increasing revenue through changes in taxation, since the latter could depress demand.

**A Stable Exchange Rate**

A country's currency has two values: an internal value and an external value. Internally, its value is expressed in terms of the goods and services it can buy and hence it is affected by changes in domestic prices. Externally, its value is expressed as an exchange rate which governs how much of another country's currency it can purchase (e.g. £1 = $2 or $1 =N140). Since foreign trade normally involves an exchange of currencies, fluctuations in the external value of a currency will influence the price of imports and exports and hence can affect the trading prospects for business, as well as a country's balance of payments and its rate of inflation.

On the whole, governments and businesses involved in international trade tend to prefer exchange rates to remain relatively stable, because of the greater degree of certainty this brings to the trading environment; it also tends to make overseas investors more confident that their funds are likely to hold their value. To this extent, schemes which seek to fix exchange rates within predetermined levels (e.g. the ERM), or which encourage the use of a common currency (e.g. the euro), tend to have the support of the business community, which prefers predictability to uncertainty where trading conditions are concerned.

**Fiscal Policy**

Fiscal policy involves the use of changes in government spending and taxation to influence the level and composition of aggregate demand in the economy and, given the amounts involved, this clearly has important implications for business. Elementary circular flow analysis suggests, for instance, that reductions in taxation and/or increases in government spending will inject additional income into the economy and will, via the multiplier effect, increase the demand for goods and services, with favourable consequences for business. Reductions in government spending and/or increases in taxation will have the opposite effect, depressing business prospects and probably discouraging investment and causing a rise in unemployment.

Apart from their overall impact on aggregate demand, fiscal changes can be used to achieve specific objectives, some of which will be of direct or indirect benefit to the business community. Reductions in taxes on company profits and/or increases in tax allowances for investment in capital equipment can be used to encourage business to increase investment spending, hence boosting the income of firms producing industrial products and causing some additional spending on consumption.

Similarly, increased government spending targeted at firms involved in exporting, or at the creation of new business, will encourage increased business activity and additionally may lead to more output and employment in the economy.

In considering the use of fiscal policy to achieve their objectives, governments tend to be faced with a large number of practical problems that generally limit their room for manoeuvre. Boosting the economy through increases in spending or reductions in taxation could cause inflationary pressures, as well as encouraging an inflow of imports and increasing the public sector deficit, none of which would be particularly welcomed by entrepreneurs or by the financial markets. By the same token, fiscal attempts to restrain demand in order to reduce inflation will generally depress the economy, causing a fall in output and employment and encouraging firms to abandon or defer investment projects until business prospects improve.

Added to this, it should not be forgotten that government decision-makers are politicians who need to consider the political as well as the economic implications of their chosen courses of action. Thus while cuts in taxation may receive public approval, increases may not, and, if implemented, the latter may encourage higher wage demands. Similarly, the redistribution of government spending from one programme area to another is likely to give rise to widespread protests from those on the receiving end of any cuts; so much so that governments tend to be restricted for the most part to changes at the margin, rather than undertaking a radical reallocation of resources and they may be tempted to fix budgetary allocations for a number of years ahead.

Other factors too - including changes in economic thinking, self-imposed fiscal rules, external constraints on borrowing and international agreements - can also play their part in restraining the use of fiscal policy as an instrument of demand management, whatever a government's preferred course of action may be. Simple prescriptions to boost the economy through large-scale cuts in taxation or increases in government spending often fail to take into account the political and economic realities of the situation faced by most governments.

**Monetary Policy**

Monetary policy seeks to influence monetary variables such as the money supply or rates of interest in order to regulate the economy. While the supply of money and interest rates (i.e. the cost of borrowing) are interrelated, it is convenient to consider them separately.

As far as changes in interest rates are concerned, these clearly have implications for business activity, as circular flow analysis demonstrates. Lower interest rates not only encourage firms to invest as the cost of borrowing falls, but also encourage consumption as disposable incomes rise and as the cost of loans and overdrafts decreases. Such increased consumption tends to be an added spur to investment, particularly if inflation rates (and, therefore 'real' interest rates) are low and this can help to boost the economy in the short term, as well as improving the supply side in the longer term.
Raising interest rates tends to have the opposite effect - causing a fall in consumption as mortgages and other prices rise, and deferring investment because of the additional cost of borrowing and the decline in business confidence as consumer spending falls. If interest rates remain persistently high, the encouragement given to savers and the discouragement given to borrowers and spenders may help to generate a recession, characterised by falling output, income, spending and employment and by increasing business failure.

Changes in the money stock (especially credit) affect the capacity of individuals and firms to borrow and, therefore, to spend. Increases in money supply are generally related to increases in spending and this tends to be good for business prospects, particularly if interest rates are falling as the money supply rises. Restrictions on monetary growth normally work in the opposite direction, especially if such restrictions help to generate increases in interest rates which feed through to both consumption and investment, both of which will tend to decline.

As in the case of fiscal policy, government is usually able to manipulate monetary variables in a variety of ways, including taking action in the money markets to influence interest rates and controlling its own spending to influence monetary growth. Once again, however, circumstances tend to dictate how far and in what way government is free to operate. Attempting to boost the economy by allowing the money supply to grow substantially, for instance, threatens to cause inflationary pressures and to increase spending on imports, both of which run counter to government objectives and do little to assist domestic firms. Similarly, policies to boost consumption and investment through lower interest rates, while welcomed generally by industry, offer no guarantee that any additional spending will be on domestically produced goods and services, and also tend to make the financial markets nervous about government commitments to control inflation in the longer ter

This nervousness among market dealers reflects the fact that in modern market economies a government's policies on interest rates and monetary growth cannot be taken in isolation from those of its major trading partners and this operates as an important constraint on government action. The fact is that a reduction in interest rates to boost output and growth in an economy also tends to be reflected in the exchange rate; this usually falls as foreign exchange dealers move funds into those currencies which yield a better return and which also appear a safer investment if the market believes a government is abandoning its counter inflationary policy.

**Direct Controls**

Fiscal and monetary policies currently represent the chief policy instruments used in modern market economies and hence they have been discussed in some detail. Governments, however, also use a number of other weapons from time to time in their attempts to achieve their macroeconomic objectives. Such weapons, which are designed essentially to achieve a specific objective - such as limiting imports or controlling wage increases - tend to be known as direct controls. Examples of such policies include:

- Incomes policies, which seek to control inflationary pressures by influencing the rate at which wages and salaries rise.
- Import controls, which attempt to improve a country's balance of payments situation, by reducing either the supply of, or the demand for, imported goods and services.
- Regional and urban policies, which are aimed at alleviating urban and regional problems, particularly differences in income, output, employment, and local and regional decline.

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## The Role of Financial Institutions

Interactions in the macro economy between governments, businesses and consumers take place within an institutional environment that includes a large number of financial intermediaries. These range from banks and building societies to pension funds, insurance companies, investment trusts and issuing houses, all of which provide a number of services of both direct and indirect benefit to businesses. As part of the financial system within a market-based economy, these institutions fulfill a vital role in channelling funds from those able and willing to lend, to those individuals and organisations wishing to borrow in order to consume or invest. It is appropriate to consider briefly this role of financial intermediation and the supervision exercised over the financial system by the central bank.

## Elements of the Financial System

A financial system tends to have three main elements:

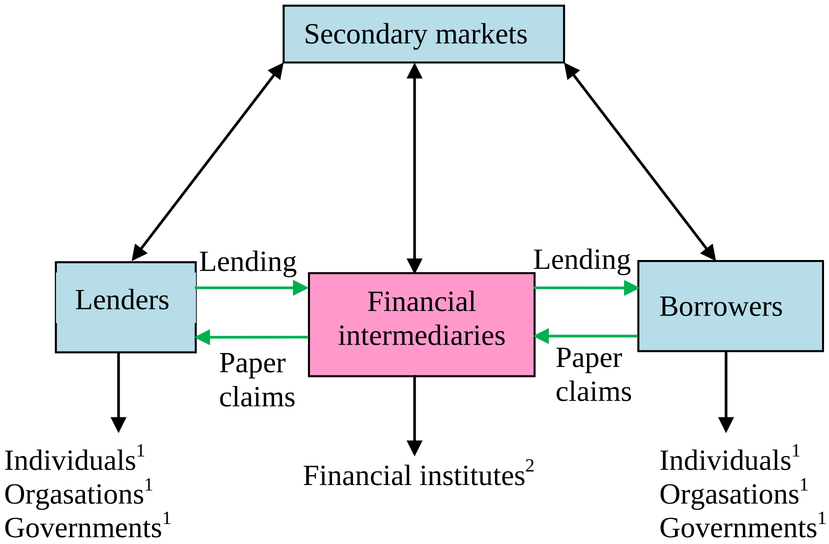
1. Lenders and borrowers-these may be individuals, organisations or governments.
2. Financial institutions, of various kinds, which act as intermediaries between lenders and borrowers and which manage their own asset portfolios in the interest of their shareholders and/or depositors.
3. Financial markets, in which lending and borrowing takes place through the transfer of money and/or other types of asset, including paper assets such as shares and stock.

Financial institutions, as indicated above, comprise a wide variety of organisations, many of which are public companies with shareholders. Markets include the markets for short-term funds of various types (usually termed money markets) and those for long-term finance for both the private and public sectors (usually called the capital market). Stock exchanges normally lie at the centre of the latter, and constitute an important market for existing securities issued by both companies and government.

The vital role played by financial intermediaries in the operation of the financial system is illustrated in the figure below and reflects the various benefits which derive from using an intermediary rather than lending direct to a borrower (e.g. creating a large pool of savings; spreading risk; transferring short-term lending into longer-term borrowing; providing various types of funds transfer services). Lenders on the whole prefer low risk, high returns, flexibility and liquidity, while borrowers prefer to minimise the cost of borrowing and to use the funds in a way that is best suited to their needs. Companies, for example, may borrow to finance stock or work-in-progress or to meet short-term debts and such borrowing may need to be as flexible as possible. Alternatively, they may wish to borrow in order to replace plant and equipment or to buy new premises - borrowing which needs to be over a much longer term and which hopefully will yield a rate of return which makes the use of the funds and the cost of borrowing worthwhile.

The process of channelling funds from lenders to borrowers often gives rise to paper claims, which are generated either by the financial intermediary issuing a claim to the lender (e.g. when a bank borrows by issuing a certificate of deposit) or by the borrower issuing a claim to the financial intermediary (e.g. when government sells stock to a financial institution). These paper claims represent a liability to the issuer and an asset to the holder and can be traded on a secondary market (i.e. a market for existing securities), according to the needs of the individual or organisation holding the paper claim. At any point, financial intermediaries tend to hold a wide range of such assets (claims on borrowers), which they buy or sell ('manage') in order to yield a profit and/or improve their liquidity position. Decisions of this kind, taken on a daily basis, invariably affect the position of investors (e.g. shareholders) and customers (e.g. depositors) and can, under certain circumstances, have serious consequences for the financial intermediary and its stakeholders.

The Role of Financial Intermediaries




Source;Worthington I, and Britton. C, (2009), the business environment, London, Prentice Hall.

Given the element of risk, it is perhaps not surprising that some financial institutions tend to be conservative in their attitude towards lending on funds deposited with them, especially in view of their responsibilities to their various stakeholders. UK retail banks, for instance, have a long-standing preference for financing industry's working capital rather than investment spending, and hence the latter has tended to be financed largely by internally generated funds (e.g. retained profits) or by share issues. In comparison, banks in Germany, France, the United States and Japan tend to be more ready to meet industry's medium- and longer-term needs and are often directly involved in regular discussions with their clients concerning corporate strategy, in contrast to the arm's length approach favoured by many of their UK counterparts.

**The Role of the Central Bank**

A critical element in a country's financial system is its central or state bank. The central Bank of Nigeria exercises overall supervision over the banking sector with the aim of maintaining a stable and efficient financial framework as part of its contribution to a healthy economy. Its activities have a significant influence in the financial markets (especially the foreign exchange market, and the money market). The activities of the central bank include the following roles:

- banker to the government;
- banker to the clearing banks;
- manager of the country's foreign reserves;
- manager of the national debt;
- manager of the issue of notes and coins;
- supervisor of the monetary sector; and
- implementer of the government's monetary policy.

**International Economic Institutions and Organizations**

Given that external factors constrain the ability of governments to regulate their economy, it is appropriate to conclude this analysis of the macroeconomic context of business with a brief review of a number of important international economic institutions and organisations which affect the trading environment. Foremost among these is the European Union. In the discussions below, attention is focused on the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the European Bank for Reconstruction and Development (EBRD), the World Trade Organisation (WTO) the World Bank.

**The International Monetary Fund (IMF)**

The IMF is an international organisation currently of 184 member countries. It came into being in 1946 following discussions at Bretton Woods in the USA which sought to agree a world financial order for the post-Second World War period that would avoid the problems associated with the worldwide depression in the interwar years. In essence, the original role of the institution - which today incorporates most countries in the world - was to provide a pool of foreign currencies from its member states that would be used to smooth out trade imbalances between countries, thereby promoting a structured growth in world trade and encouraging exchange rate stability. In this way, the architects of the Fund believed that the danger of international protectionism would be reduced and that all countries would consequently benefit from the boost given to world trade and the greater stability of the international trading environment.

While this role as international 'lender of last resort' still exists, the IMF's focus in recent years has tended to switch towards international surveillance and to helping the developing economies with their mounting debt problems and assisting eastern Europe with reconstruction, following the break-up of the Soviet empires It has also been involved in the past in trying to restore international stability following the global economic turmoil in Asia and elsewhere and some countries would like it to adopt a more enhanced global surveillance role in the wake of the global credit crisis (2008). To some extent its position as an international decision-making body has been diminished by the tendency of the world's leading economic countries to deal with global economic problems outside the IMF's institutional framework. The United States, Japan, Germany, France, Italy, Canada, Britain and Russia now meet regularly as the Group of Eight (G8) leading industrial economies to discuss issues of mutual interest (e.g. the environment, Eastern Europe). These world economic summits, as they are frequently called, have tended to supersede discussions in the IMF and as a result normally attract greater media attention.

**The Organisation for Economic Co-operation and Development (OECD)**

The OECD came into being in 1961, but its roots go back to 1948 when the Organisation for European Economic Co-operation (OEEC) was established to co-ordinate the distribution of Marshall Aid to the war-torn economies of Western Europe. Today it comprises 30 members, drawn from the rich industrial countries and including the G7 nations, Australia, New Zealand and most other European states. Collectively, these countries account for less than 20 per cent of the world's population, but produce around two-thirds of its output - hence the tendency of commentators to refer to the OECD as the 'rich man's club'. Currently talks are under way to expand the membership of the Organisation to include other countries such as Chile, Russia and Israel.

In essence the OECD is the main forum in which the governments of the world's leading industrial economies meet to discuss economic matters, particularly questions concerned with promoting stable growth and freer trade and with supporting development in poorer non-member countries. Through its council and committees, and backed by an independent secretariat, the organisation is able to take decisions which set out an agreed view and/or course of action on important social and economic issues of common concern. While it does not have the authority to impose ideas, its influence lies in its capacity for intellectual persuasion, particularly its ability through discussion to promote convergent thinking on international economic problems. To assist in the task, the OECD provides a wide variety of economic data on member countries, using standardised measures for national accounting, unemployment and purchasing-power parities. It is for these data - and especially its economic forecasts and surveys - that the organisation is perhaps best known.

**The European Bank for Reconstruction and Development (EBRD)**

The aims of the EBRD, which was inaugurated in April 1991, are to facilitate the transformation of the states of central and Eastern Europe and beyond from centrally planned to free-market economies and to promote political and economic democracy, respect for human rights and respect for the environment. It is particularly involved with the privatisation process, technical assistance, training and investment in upgrading of the infrastructure and in facilitating economic, legal and financial restructuring. It works in co-operation with its members, private companies and organisations such as the IMF, OECD, the World Bank and the United Nations.

**The World Trade Organisation (WTO)**

The World Trade Organisation, which came into being on 1 January 1995, superseded the General Agreement on Tariffs and Trade (the GATT), which dated back to 1947. Like the IMF and the International Bank for Reconstruction and Development (see below), which were established at the same time, the GATT was part of an attempt to reconstruct the international politico-economic environment in the period after the end of the Second World War. Its replacement by the WTO can be said to mark an attempt to put the question of liberalising world trade higher up the international political agenda.

With a membership of around 150 states (plus other observers), the WTO is a permanent international organisation charged with the task of liberalising world trade within an agreed legal and institutional framework. In addition it administers and implements a number of multilateral agreements in fields such as agriculture, textiles and services and is responsible for dealing with disputes arising from the Uruguay Round Final Act. It also provides a forum for the debate, negotiation and adjudication of trade problems and in the latter context is said to have a much stronger and quicker trade compliance and enforcement mechanism than existed under the GATT.

**The World Bank (IBRD)**

Established in 1945, the World Bank (more formally known as the International Bank for Reconstruction and Development or IBRD) is a specialised agency of the United Nations, set up to encourage economic growth in developing countries through the provision of loans and technical assistance. The IBRD currently has over 180 members.

**The European Investment Bank (EIB)**

The European Investment Bank was created in 1958 under the Treaty of Rome and is the financing institution of the European Union. Its main task is to contribute to the integration, balanced development and the economic and social cohesion of EU Member States. Using funds raised on the markets, it finances capital projects which support EU objectives within the European Union and elsewhere. Its interests include environmental schemes, projects relating to transport and energy and support for small and medium-sized enterprises.

## 4.0 CONCLUSION

The economic environment influences business organizations. Economics environment entails the interest rates, inflation, government policies and the allocation of scarce productive resources to alternative uses. Business organizations must watch the economic activities where it operates with the aim of taking advantages of the opportunities inherent in it while avoiding the threats. Organizations have to pay due attention to the influence of a wide range of institutions and organizations, some of which operate at international level.

## 5.0 **SUMMARY**

Business Organizations exist in and is affected by the broader macroeconomic activities which shape their performances. The economic is concerned with how societies allocate scarce economic resources to alternative uses and the 'real costs' of the choices that are made. Broadly speaking two main approaches to the problem of resource allocation exist: state planning and the market based. Most countries in the world operate the market-based economies which operate through a price mechanism. Within such economies the state also plays a key role in some allocation decisions. A number of financial organizations exist in the business economy which can influence business organizations.

Economic forces affect the general health and well-being of a country or world region. They include interest rates, inflation, unemployment, and economic growth. Economic forces produce many opportunities and threat for managers. Low levels of unemployment and falling interest rates mean a change in the customer base. More people have more money to spend, and as a result, organizations have an opportunity to sell more goods and services. Good economic times affect supplies. Resources become easier to acquire, and organizations have an opportunity to flourish.

In contrast, worsening macroeconomic conditions, pose a major threat because they limit managers' ability to gain access to the resources their organization needs. Profit oriented organizations such as retail stores and hotels have fewer customers for their goods and services during economic downturns .Even a moderate deterioration in national or regional economic conditions can seriously affect performance.

Poor economic conditions make the environment more complex and managers' job more difficult and demanding. Managers may need to reduce the number of individuals in their departments and increase the motivation of remaining employees. Successful managers realize the important effects that economic forces have on their organizations, and they pay close attention to what is occurring in the national and regional economies to respond appropriately.

## 6.0 TUTOR-MARKED ASSIGNMENT

Explain fully how the economic environment influences the business organization.

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# UNIT 7 THE TECHNOLOGICAL FORCES

## CONTENTS

6.0 Tutor marked Assignment
7.0 References/Further Reading

## 7.0 INTRODUCTION

### 3.1 The meaning of Technology

Technology is defined as 'the sum of knowledge of the means and methods of producing goods and services' (Penguin Dictionary of Economics). It is increasingly science based, encompassing things like chemistry, physics and electronics, and refers to the organisation of production as well as the actual techniques of production itself. Technological change leads to the introduction of new products, changes in the methods and organisation of production, changes in the quality of resources and products, new ways of distributing the product and new ways of storing and disseminating information. Technology has a very big impact upon the world of business in all of these areas and has an important effect on the level and type of investment that takes place in an economy and therefore the rate of economic growth.

### Technological change

There have been massive changes in technology in the past ten years. This section will consider a few of these and assess their impact upon business and the economy.

### Information technology

Developments in information technology have had the effect of transforming existing business activities as well as creating entirely new ones, involving the collection, handling, analysis and transmission of information. There has been a massive increase in the demand for information, and, on the supply side, continued advances in the miniaturization of components. These will continue even when the capabilities of the silicon chip have been exhausted, with the development of superconductors and electronics. There are also the advances in the computing area such as the development of new languages and artificial intelligence.

Advances in information technology have many impacts upon business. They are creating new products and making old products more profitable to produce through things like computer-aided design (CAD). The effects they are having on the different functions carried out by businesses can easily be seen:

- Administration. The administration of businesses has been revolutionised by the introduction of information technology. Most businesses have computer systems, records have been computerised and filing has become unnecessary.
- Communication. This has been eased by the introduction of fax machines and email, mobile phones etc. Video conferencing has contributed to the change in working practices by making it possible for people to work anywhere. Telecommunications companies, such as BT, are working on desktop video conferencing systems, where the video camera is attached to the desktop PC.

- Production. The use of CAD will shorten the design and planning phase of the product and shorten the life cycle of the product. Japan applied this very early in the field of consumer electronics and many of the products are withdrawn from sale and redesigned within a very short period of time.
- Storage and distribution. The computerisation of stock control has had implications for the storage requirements of firms. It has made implementation of the just-in-time method of stock control possible. This is easily seen in the case of supermarkets where the use of bar-codes on products makes it possible to carry out a stock check of a whole supermarket in a matter of hours. The shelves can then be loaded up as the stock check continues. Similarly, the use of bar-codes with Electronic Point of Sale (EPOS) makes stock control simpler.
- Electronic Funds Transfer at Point of Sale (EFTPOS). This system has also had a revolutionary effect in the area of retailing. Most shops now accept credit cards or Switch cards where funds are immediately transferred from bank accounts to the supermarkets.
- The Internet. The potential for the Internet is enormous, although it is still is still growing. At present, the U.S seems to be the highest user, the market is growing.

One aspect of business where information technology has become particularly important is in providing opportunities for firms to interact immediately with their customers and suppliers, whoever and wherever they might be. E-commerce, e-business and e-markets are now part of the business lexicon and are now an important area of study for undergraduate and postgraduate students alike.

**Other technological developments**

- New materials. There are two main developments in this area: the development of materials in the high-tech industries like technical ceramics and the upgrading of materials used in lower-range products like coated sheet metal.
- Biotechnology. This is expected to have wide-ranging effects on many fields. The development of new products like computers that can imitate the activity of the brain can shorten the development process for certain products by speeding up existing processes.
- Energy. The kinds of developments that can take place in this field are the use of superconductors to transport electricity and research which might make solar energy a viable source of energy.

These are the new emerging industries which are creating new products and making old products more profitable to produce. It has been estimated that the output of these emerging industries is 20 per cent for consumption within the industries themselves, 20 per cent for final consumption and 60 per cent for consumption in the traditional industries.

## 3.2 Technology and investment

The second input into the production process after people is capital. In economics, capital has a special meaning; it refers to all man-made resources which are used in production. Capital is usually divided into working capital and fixed capital. Working capital consists of the stocks of raw materials and components used in producing things. Fixed capital consists of buildings, plant and machinery. The main difference between the two is that fixed capital gives a flow of services over a long period of time, while working capital needs to be replaced on a regular basis. Because of its nature, working capital is much more mobile than fixed capital (i.e. it can be used for other purposes much more easily). Capital is a 'stock' of goods used in the production process, a stock which is continually being used and therefore needing to be replaced. This stock provides a flow of services for the production process.

Capital includes a wide diversity of items, including factory premises, machinery, raw materials in stock, transport vehicles and partly finished goods. As well as these, there is what is often called 'social capital', which refers to capital that is owned by the community such as schools and hospitals. There is also spending on the infrastructure, which is important to all businesses rather than being linked to one particular business. The main components of this are transport, energy, water and information. The transportation system is obviously very important to any economy. Road, rail, air and water are used to transport goods, services and raw materials. The same is true for energy and water. The information distribution system is also part of the infrastructure and would include telephone systems and the post.

The increase in the stock of capital over time is called investment. Investment will serve to increase the productive potential of the firm and the economy. Investment usually refers to the purchase of new assets, as the purchase of second-hand assets merely represents a change in ownership and therefore does not represent a change in productive potential. Investment is important for the firm as it is a mechanism for growth; it is an integral part of the innovation process and can have disastrous results for a firm if an investment goes wrong. Generally, the higher the level of investment in a country, the higher will be the level of economic growth.

Total or gross investment can be broken down into replacement investment, which is investment to replace obsolete or worn-out machines, and new investment, which is any investment over and above this. This includes investment by firms, individuals and governments. As might be expected, the level of investment is affected by the state of the economy.

There is an important relationship between investment and technological change which runs in both directions. Investment can form the basis for improvements in technology while improved technology which brings about new ways of producing goods will lead to greater investment. For private firms the main determinants of the level of investment will be the rate of technological change and the scope for extra profit as a result of these changes.

**Innovation and technology**

There are two types of innovation that can occur as a result of technological change: product innovation and process innovation. Product innovation is the development of new products, like the microprocessor, which will have far-reaching effects on business. New products impact upon the industrial structure of a country, as new industries grow and old industries disappear. This in turn will lead to changes in the occupational structure of the workforce, as we have seen. It has even had the effect of reducing the benefits large firms derive from economies of scale in cases where the technological change can be exploited by small firms as well as it can by large firms. Another example of product innovation which has affected the level of competition in the market is the development of quartz watches, which allowed Japan to enter the market and compete with Switzerland. Process innovation, on the other hand, refers to changes that take place in the production process, like the introduction of assembly-line production in the manufacture of cars. The two types of innovation are related, as the above examples show. The microprocessor (product innovation), which is a new product, has led to massive changes in the way that production and offices operate (process innovation).

Not all innovation is technological in nature; for example, changes in fashion in clothing are not technological. Innovative activity is important for all industry whether manufacturing or non-manufacturing. In some industries (e.g. pharmaceuticals, computers), innovation is essential if firms wish to remain competitive. A CBI survey of 408 companies in the UK found that the innovation activities of 84 per cent of the sample had been adversely affected by the economic slowdown post-September 11.

### 3.2 Research and development

Most, but not all, technological changes have occurred through the process of research and development (R&D). 'Research' can be theoretical or applied, and 'development' refers to the using of the research in the production process. Most research and development carried out by private companies is directed towards applied research and development. It is designed to develop new products and production processes which will render production more profitable. It is also aimed at improving existing products and processes. Most basic theoretical research carried out around the world is financed from public sources and is undertaken in places like the universities.

### Limits to technological change

Technological change has many effects on the economy and the environment and if uncontrolled can lead to problems, like high levels of unemployment or the exhaustion of natural resources. One area of concern is energy. The world's stock of energy is finite and we are still heavily dependent upon fuel which was formed millions of years ago. The development of nuclear power again represents a finite source of energy, and also carries with it other problems like the disposal of nuclear waste and the possibility of accidents. For these and other reasons the scale of technological change needs to be controlled.

It is also the case that technological change can lead to high levels of unemployment in industries that are in decline. This type of unemployment often takes on a regional bias as the older traditional industries tend to be located in particular parts of the country. Technological unemployment is in some respects inevitable as in a changing world it would be expected that new industries would emerge and old industries die. The problem can be tackled by the government and industry through retraining, but what is also needed is a new and more flexible view of work where less time is spent working and more on leisure.

**8.0 CONCLUSION**

Technological advances can create new products, advanced production methods and better ways of managing. Organizations can improve their technology by investing in research and development.

**9.0 SUMMARY**

Technologies provide new ways to manage and communicate. Technology is the knowledge of the means and methods of producing goods and services.

**6.0 TUTOR-MARKED ASSIGNMENT**

Discuss the role of technology in modern business management.

**7.0 REFERENCES/FURTHER READING**

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## UNIT 8 THE DEMOGRAPHICAL FORCES

**CONTENTS**

5.0 Summary
6.0 Tutor marked Assignment
7.0 References/Further Reading

## 1.0 INTRODUCTION

Demography is the study of populations both in terms of their overall size and their structural characteristics. From a business point of view the key as of interest include the age structure of a given population, its gender balance, its geographical distribution and the tendency for both the size and structure of the population to change over time. Demographic change can have important implications for both the demand and supply side of the economy and hence for organisations of all types.

## 3.0 THE MAIN CONTENT

### 3.1.1 POPULATION

A country's population normally increases over time and will vary according to such factors as changes in the birth and death rates and in the rate of net migration. For example, the Nigerian population as at 2015 is estimated to be 170 million people. In comparison, Russia's current population of around 145 million is projected to fall to about 100 million by 2050 as a result of a declining birth rate and a rising death rate in the wake of the country's economic collapse. If this occurs the world's biggest country will have fewer people than countries such as Uganda and Egypt. It is worth remembering, however, that future population changes are only projections and that these can vary considerably over time as new data become available. For example, in late 2007 the UK's Office for National Statistics provided three projections for the UK population by 2081: 63 million (lowest estimate); 108.7 million (highest estimate); 85 million (most likely estimate). These estimates show considerable variation and indicate how future population changes are relatively unpredictable, which can make forward planning difficult.

### 3.1.2 The age and sex distribution of the population

In addition to examining the overall size of a country's population, demographers are also interested in its structural characteristics, including the balance between males and females and the numbers of people in different age categories.

### 3.1.2 Other structural characteristics

Populations can also be examined in a number of other ways including their ethnicity and geographical distribution.

### 3.1.3 Population change

As the previous analysis indicates, populations can change in either size and/or structure, with important consequences for economic activity both within and between countries. The size and structure of a country's population depend on a number of variables, the most important of which are the birth rate, the death rate and the net migration rate.

#### 3.1.3.1The birth rate

Birth rates tend to be expressed as the number of live births per thousand of the population in a given year. In many countries this figure has been falling steadily over a long period of time for a number of reasons. These include:

- A trend towards smaller families as people become better off and health improves and death rates fall.
- The increased availability of contraception.
- The trend towards later marriages and later childbearing for social and/or economic reasons.
- Declining fertility rates.
- Changing attitudes towards women and work.

In some countries governments have offered financial and other incentives to married couples to try to reduce the birth rate (e.g. China) as a means of controlling population growth. In other countries incentives have been offered to try to reverse the actual or potential decline in the birth rate because of its economic consequences (e.g. France, Singapore). Declining birth rates are, of course, an important contributor to an ageing population; they can also have other consequences. For instance, a recent increase in the birth rate in the UK has led to a call by the Optimum Population Trust for British couples to restrict themselves to 2 children in order to reduce the impact of population growth on the natural environment. In Nigeria, various governments have tried to restrict couples to four children per couple but this has not been effectively handled.

#### 3.1.3. 2 The death rate

Like birth rates, death rates are usually measured per thousand of the population in a given year. For developed economies, this figure has tended to fall over time before reaching a plateau. Among the main contributors to this trend have been:

- Rising living standards, including better housing, sanitation and nutrition.
- Developments in medical technology and practice.
- Better education.

- Improved working conditions.
- The difference between the birth rate and the death rate represents the natural change in the population (i.e. increase or decrease).

### 3.1.3.3 Net migration

Apart from the movement of population within a country (internal migration), people may move from one country to another for a variety of reasons. The balance between those leaving (emigrants) and those entering (immigrants) a country over a given period of time represents the rate of net migration. Along with changes in the birth and/or death rate, this can be a significant factor in population change and can have important consequences for the economy. Influences on the rate of net migration include:

- Legal barriers (e.g. immigration laws).
- Economic migrancy.
- The numbers fleeing persecution.
- Government policy.
- Political developments.

## 3.2 Demographic change and business

Changes in the size and/or structure of a country's population can have important consequences for enterprises in the public, private and voluntary sectors both in the short and long term. Given increased globalisation and international trade, the impact of demographic change has an international as well as a national dimension for a growing number of trading organisations.

The following examples provide illustrations of how a changing demography can influence both the level and pattern of demand within an economy and in turn help to explain why changes can occur in a country's economic and industrial structure. Demographic change can also have important effects on the supply side of the economy.

You should try to think of other examples.

- As populations grow in size the demand for many types of goods and services also tends to grow (e.g. energy, consumer durables, food). A growing population also provides a larger workforce, other things being equal.
- An 'ageing population' increases the demand for a range of public, private and voluntary sector goods and services (e.g. healthcare, pensions, specialist holidays, sheltered housing). It also creates an increasingly dependent population.
- A declining birth rate influences the demand for education, children's products, childcare, certain TV programmes, comics, toys, etc. It can also reduce the numbers of young people available to enter the workforce to replace those who retire.
- Changes in the ethnic make-up of the population can affect the demand for par-

ticular food products, clothing and media services and can place increased demands on public authorities (e.g. documents printed in different languages). Some researchers also argue that a more diverse workforce can improve an organisation's performance.

- The regional redistribution of the population will affect the consumption of a range of goods and services including housing, education, healthcare, transport, energy and many day-to-day products. It can also affect prices (e.g. in the housing market) and the make-up of the local labour market.

On a more general level, it is also worth noting that demographic change can impact on a country's social as well as its economic structure and that this can result in increased (or reduced) demands on a range of organisations, particularly those in the public sector. For example, the growing imbalance being experienced in many countries between an increasing and dependent elderly population and a diminishing population of working age touches on many areas of public policy, from healthcare and social provision on the one hand to pensions and fiscal policy on the other. Governmental responses to the consequences of demographic change can have both direct and indirect consequences for a wide variety of organisations across the economy.

## 3.3 The Social context

Since organisations exist and operate in society, they are subject to a variety of societal influences that operate at both a general and specific level. In this section we consider some of the key factors within an organisation's social environment, starting with the concept of social class.

### 3.3.1 Social class

Throughout history, all societies have normally exhibited a certain degree of social and economic inequality that has given rise to the tendency to classify individuals into different social categories. For example, in India the 'caste system' has been an important source of social differentiation and one which has exerted a key influence over the life and opportunities available to members of the different castes. In other countries, including Nigeria, the categorisation of individuals has often been based around notions of social class, the idea of grouping people together who share a similar social status which is related to certain common features such as educational background, income and occupation. Whereas in some types of social system, movement between groups is either very difficult or impossible (e.g. the caste system), in others social mobility is frequently observed, with some individuals able to move relatively quickly between the different social strata (e.g. upper class, middle class, working class) as their personal circumstances change.

Another factor that can clearly affect people's attitudes and behaviour is the lifestyle that they choose to adopt. Lifestyles are basically concerned with the way in which people live and how they spend their money, decisions which are not necessarily always linked to their socio-economic position. Two individuals with the same occupation - and nominally in the same social class - may have entirely different lifestyles, a point well illustrated by examining two university lecturers. My own lifestyle is highly sophisticated, environmentally sensitive, artistic and cosmopolitan; that of a colleague - who happens to teach marketing - is narrow, parochial, philistine and consumption-driven. Then, what would one expect?!

Lifestyle analysis provides another way of seeking to categorise and explain human behaviour, based on factors such as an individual's interests, activities and opinions as well as on their demographic characteristics. In essence, the proposition is that by examining distinctive patterns of consumer response, a marketing organisation can build up a clearer picture of an individual's habits, preferences and behaviour and by doing so can design more effective and appealing products, marketing programmes and/or communications that can be aimed at specific lifestyle groups.

### 3.4 Other social influences

While it is important to consider the influence of broad social factors such as class and lifestyles, it is also worth remembering that consumers are individuals and that they are subject to influences that operate at a personal level. Such influences include the wide variety of individuals and groups with whom we come into contact during our lifetime and who may influence our attitudes, values, opinions and/or behaviour. Primary among these are our interactions within the family, with friends or work colleagues and through our involvement with sports and social clubs, religious organisations, trade unions and so on. Such groups are sometimes referred to as reference groups.

Groups that have a regular or direct (i.e. face-to-face) influence on us are known as primary reference groups while those whose influence tends to be more indirect and formal are known as secondary reference groups. The former, in particular, can be very influential in shaping our attitudes and behaviour including our decisions on consumption.

The importance of reference groups, especially family and friends, is recognised by both economists and marketers. Economists, for example, use the notion of 'households' to indicate that the consumption of goods and services often takes place within a collective family framework, as in the case of groceries, holidays, vehicles and many other everyday products. Marketers use concepts such as the family life cycle to show changing patterns of consumption as the individual moves from being a child in a family to being a parent with different needs and responsibilities.

While it is difficult to be precise about when and how far an individual's demand is shaped by the family and other reference groups, it is not difficult to think of particular examples when this is likely to be the case. For many services such as builders, restaurants, hotels, hairdressers and car repairs, consumers often rely on the advice of a trusted friend or colleague and many firms can gain new business through such word-of-mouth recommendations. Equally, through membership and/or support of a particular group or club, individuals may be tempted to purchase particular goods and/or services (e.g. football kit, trainers, a CD, tickets), especially those with a desirable 'brand name' and endorsed by a well-known personality (e.g. sportsperson, musician, singer, film star). In such cases, the demand for the product is often less price sensitive since it is a 'must have' product.

## 4.0 **CONCLUSION**

Demographics consists of the various characteristics of people such as age, sex, family size, income, education, occupation, tribes and so no within a group or other social units such as organizations and indeed the society at large. Managers must consider workforce demographics in formulating strategies that will lunch their organizations to greater hights.

## 5.0 SUMMARY

The Demographic environment is concerned with the study of the population characteristics both in terms of their overall size and their structural characteristics. Areas of interest in a business setting include the age structure of a given population, its gender balance, its geographical distribution and the tendency for both the size and structure of the population to change over time. As we have observed, demographic change can have important implications for an organization’s human resources management as well as the demand and supply side of the economy. The social context of business includes factors such as social class, lifestyles and reference group influences. The consumption of goods and services in an economy can be linked to such factors.

## 6.0 TUTOR MARKED ASSIGMENT

Why do you think that the demographic composition of a population is important to an organization?

## 7.0 REFERENCES/FURTHER READING

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## UNIT 9 THE CULTURAL ENVIRONMENT

**CONTENTS**



## 3.0 THE MAIN CONTENT

### 3.1 The meaning of culture

The term culture generally refers to a complex set of values, norms, beliefs, attitudes, customs, systems and artefacts which are handed down from generation to generation through the process of socialisation and which influence how individuals see the world and how they behave in it. Defined in this way, culture can be seen to have at least three important features:

- it comprises both material (e.g. human artefacts such as buildings, literature, art, music) and abstract elements (e.g. rituals, symbols, values);
- it is socially learned and transmitted over time; and
- it influences human behaviour.

As a concept, 'culture' is often applied in a variety of circumstances at both the macro and micro level: terms such as 'western culture', 'Asian culture', 'European culture', 'New York City culture', 'youth culture', 'pop culture', 'entrepreneurial culture' and 'research culture' are just some of the examples of its usage in this modern world. What they have in common is that they imply certain shared aspects of human belief, understanding and behaviour that link individuals together into some form of definable group and/or range of activities.

In a business context, it can be easy to underestimate the degree to which a person's perceptions, attitudes and behaviour can be shaped by cultural influences, some of which may be relatively enduring (e.g. certain 'core' values and beliefs) while others may be more open to change (i.e. secondary beliefs and values). In the United States, for example, American citizens believe in the right of individuals to bear arms and this is enshrined in the US Constitution. The buying and selling of handguns and rifles is thus acceptable within American society, despite the fact that they are frequently used in violent crimes including robbery and murder. In other countries, trade in such weapons tends to be seen as highly questionable by most people and is usually heavily regulated by the government to certain types of weapons for use in acceptable pursuits such as hunting or rifle shooting. Cultural differences such as this can, of course, apply not only to the kinds of goods and services that are consumed (e.g. eating horsemeat in France is acceptable but not in Nigeria) but also to other aspects of both the production and consumption process and this can have important implications for an organisation's behaviour.

**Examples include:**

- Who decides what is bought, how it is bought or where it is bought (e.g. in some cultures women have predominantly been the purchasers of household products).
- What colours are acceptable (e.g. the colour associated with bereavement varies across cultures).
- How far harmonisation of products and marketing activities is feasible (e.g. the EUs perennial debates over what constitutes an acceptable definition of certain products such as sausages, Feta cheese, chocolate).
- What factors can enhance the prospect of a sale (e.g. bribes are acceptable in some cultures).
- How business is conducted (e.g. the length of negotiations, the meaning of a handshake).
- The method of communicating with the target audience (e.g. in the UK a single

shared language allows organisations to use national media).

- How customer enquiries/complaints are dealt with (e.g. UK businesses using call centres in India often give their operators British names and train them to talk about everyday British preoccupations such as the weather and sport).

In effect, culture not only influences an individual's response to products and the nature of the buying and selling process, but it also exercises a significant influence on the structure of consumption within a given society. For companies which can gain acceptability on a global scale, despite cultural differences between countries, the potential benefits are huge (e.g. global brands such as Coca-Cola, McDonald's, Nike). While the so-called 'Americanisation' of consumption is not to everyone's taste, other forms of cultural exportation are often more acceptable and can prove highly lucrative for the country concerned. In the UK, for example, overseas earnings from culture and arts-related tourism make a significant contribution to the country's 'invisible earnings' and many other countries benefit in similar ways.

**3.2 Sub-culture**

A society is rarely, if ever, culturally homogeneous. Within every culture subcultures usually exist, comprising groups of individuals with shared value systems based on common experiences, origins and/or situations. These identifiable sub-groups may be distinguished by nationality, race, ethnicity, religion, age, class, geographical location or some other factor and their attitudes, behaviour, customs, language and artefacts often reflect sub-cultural differences. At times such differences can be relatively easily accommodated and ultimately may become institutionalised through the legal and/or political process. At other times sub-cultural differences can be the source of a considerable degree of conflict between various sub-groups, resulting in serious divisions within a society and even in war and genocide.

The UK provides a good example of the notion of cultural diversity and can be used to illustrate how this can influence the demand for goods and services. In addition to nationality groups such as the Irish, Scots and Welsh, the country has provided a home for successive generations of immigrants from around the globe and this has created a rich mix of ethnic and other sub-groups, often concentrated in particular parts of the country and having their own language, traditions and lifestyles. In Leicester, for example, re a significant proportion of the population is of Asian origin, there is a substantial Asian business community, part of which has developed to cater specifically for the local ethnic population (e.g. halal butchers, saree shops), as well as attracting custom from the wider community (e.g. Indian restaurants). Many Asian businesses in Leicester are small, family owned enterprises, employing members of the extended family in keeping with cultural traditions. Aspects such as the organisation and financing of the business, its network of relationships and the working conditions for staff are also frequently influenced by cultural values, traditions and norms, although changes in these areas are becoming more apparent, especially among second and third generation Asian-owned enterprises.

**3.3 Application: Market Segmentation**

Marketers have long recognised the importance of demographic, social and cultural factors in shaping people's demand for goods and services. This is exemplified by distinct groups of buyers who share the same or similar attitudes and patterns of behaviour and who might require separate products or marketing to meet their particular needs. By segmenting a market into its broad component parts, businesses should be able to focus their marketing efforts more effectively and efficiently, for example by developing product offerings and marketing programmes which meet the requirements of the different market segments.

Markets can be segmented in a variety of ways and this tends to differ between consumer markets and those which involve business to business transactions. Table 6.8 below outlines some of the major variables used in segmenting consumer markets. As the table indicates, demographic, social and cultural factors provide a basis for identifying distinct market segments within the markets for consumer goods and services. In practice, of course, marketers may use either one (e.g. demography) or a combination (e.g. age, location and social class) of different variables to segment a market they are seeking to target.

A good example of combining the different variables is provided by the notion of geodemographic segmentation which focuses on the relationship between an individual's geographical location and her/his demographic characteristics, given that close links frequently exist between a person's place and type of residence and factors such as income, family size and attitudes. One well-known scheme of this type is ACORN (A Classification of Residential Neighbourhoods) which uses 40 variables from population census data to differentiate residential areas. Another is MOSAIC, developed by Experian, which draws on a variety of data sources (e.g. census data, financial data, property characteristics, demographic information) and uses a range of sophisticated analytical techniques to produce household profiles at full postcode level. Under the MOSAIC scheme, UK households are currently divided into 11 groups with names such as 'Symbols of Success', 'Suburban Comfort' and 'Grey Perspectives' and these are then further sub-divided into 61 types, again with interesting and evocative names including 'Golden Empty Nesters', 'Sprawling Subtopia' and `Childfree Serenity'.

With regard to factors such as social class and lifestyles, these tend to be grouped under the notion of psychographic segmentation, an approach which has attracted considerable attention in recent years given the reciprocal link between lifestyles and consumption indicated above. Lifestyle segments can be developed either as 'off-the-shelf' products by marketing agencies/management consultancies or can be customised for/by individual companies, although the latter often tend to be both complex and expensive to design. One established and popular example of the former is VALS (Values And Lifestyles) developed by SRI International. Under this model, individuals are allocated to different categories on the basis of a combination of demographic and lifestyle factors such as age, education, income and levels of self-confidence and then these categories are grouped into a number of broader segments which reflect a category's predominant orientations. Thus, under VALS 2, the three broad groups identified were (1) people who were principle-orientated (i.e. guided by their views of how the world should be); (2) people who were status-orientated (i.e.

guided by the opinions and actions of others); (3) people who were action-orientated (i.e. guided by the desire for social and physical activity, variety in life and risk taking).

All organisations are an integral part of the society in which they exist and carry out their activities and as a result they are affected by a range of influences emanating from the demographic, social and cultural environment. These influences can change over time and help to shape both the demand and supply side of business activity. Businesses and other organisations need to be aware of and respond to the process of societal change and to the opportunities and threats that such change can engender.

> The cultural environment of business comprises those institutions and other forces which help to shape society's basic attitudes, values, perceptions, preferences and behavior. Like demography and social factors, cultural influences can change over time and can affect organisations. Businesses need to be sensitive to such change.

### 3.4 Understanding Cultural Difference

National culture plays an important role in understanding employees’ behavior in different cultures. It is important for any company competing internationally to understand cultural differences. The most valuable framework to help managers to better understand differences between national cultures was developed by Geert Hofstede. His research showed that national culture had a major impact on employees’ work- related values and attitudes. In fact, it explained more of the differences than did age, sex, profession, or organizational position. Thus cultural differences do affect individuals’ work related attitudes. Hofstede found five dimensions of cultural differences that formed the basis for work related attitudes. These dimensions are further discussed below.

Individualism versus Collectivism; Individualism refers to a loosely knit social framework in which people are supposed to look after their own interests and those of their immediate family. They can do so because of the large amount of freedom that an individualistic society allows its citizens. The opposite is collectivism, which is characterized by a tight social framework in which people expect others in groups of which they are part ( such as family or an organization) to look after them and to protect them when they are in trouble. In exchange, they feel they owe absolute loyalty to the group.

Hofstede found that the degree of individualism in a country was closely related to that country’s wealth. Wealthier countries such as the United States, Great Britain, and the Netherlands are very individualistic. Poorer countries such as Colombia and Pakistan are very collectivistic.

Power Distance The second dimension of cultural differences identified by Hofstede examines the acceptance of unequal distribution of power. In countries with a high power distance, bosses are afforded more power simply because they are the bosses. Titles are used, formality is the rule, and authority is seldom bypassed. Power holders are entitled to their privileges, and managers and employees see one another as fundamentally different kinds of people. India is a country with high power distance, as well as Venezuela , Mexico and Nigeria.

In countries with low power distance, people believe that inequality in society should be minimized. People at various power levels are less threatened by, and more willing to trust, one another. Managers and employees see one another as similar. Managers are given power only if they have expertise. Employees frequently bypass the boss in order to get work done in countries with a low power distance, such as Demark and Australia.

Uncertainty Avoidance; Some cultures are quite comfortable with ambiguity and uncertainty, whereas others do not tolerate these conditions well. Cultures with high uncertainty avoidance are concerned with security and tend to avoid conflict. A society that is high in uncertainty avoidance is characterized by high level of anxiety among its people, which manifests itself in nervousness, high stress, and aggressiveness. Robbins and Coulter (2003) posit that because people in these cultures feel threatened by uncertainty and ambiguity, political and social mechanisms are created to provide security and reduce risk. Organizations in these cultures are likely to have formal rules and little tolerance for unusual ideals and behaviors

Individualism /Collectivism; Individualism refers to the extent to which individuals in society see themselves as independent and autonomous human beings. Here the interests of the individual take precedence. High individualist countries include countries such as the United States, the UK, Canada and Australia. On the other hand in collectivist societies, the interests of the group take precedence. Here individuals look after one another and organizations protect their members' interests. Countries with collectivist values are mainly in Asia, Latin America, and Africa.

Masculinity/Femininity; Masculinity stands for preference for achievement, heroism, assertiveness, work centrality (with resultant high stress) and material success. On the other hand femininity reflects the values of relationships, cooperation, group decision making, and quality of life. Societies with strong masculine values are Japan, Austria, Mexico, and Germany. Countries with feminine values are Sweden, Norway, Denmark, and the former Yugoslavia.

Long term orientation/Short term orientation; In long term orientation, people t embrace a long-term view of life. Here savings is emphasized. On the other hand, in societies with short-term orientation, people tend to stress the 'here and now'.

## 4.0 CONCLUSION

Culture is an important aspect of the general business environment. Culture denotes the norms, customs, and values of the general population. Organizations must seek to understand the culture of the society in which it operates if they are to succeed in their operations.

## 5.0 SUMMARY

Culture generally refers to a complex set of values, norms, beliefs, attitudes, customs, systems and artifacts which are handed down from generation to generation through the process of socialization and which influence how individuals see the world and how they behave in it. There are cultural differences which affects the operations of an organization. Managers need to learn and adjust to the culture of their area of operation.

## 6.0 TUTOR-MARKED ASSIGNMENT

Discuss Hofstede cross cultural analysis and its usefulness in the management of international organizations.

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**MODULE 3 ETHICS AND SOCIAL RESPONSIBILITY**



## UNIT 10 ETHICS

**CONTENT**



## 1.0 INTRODUCTION

Businesses everywhere seek to earn profits to remain in existence. But there are disparate views about how a firm can legitimately pursue and then use those profits. Some companies aggressively seek to maximize their profits, to grow at any cost, and focus on nothing but what's best for the company. Others, like Patagonia, take a much different approach to business and actively work for the betterment of society, even when it means less profit for the owners. Most businesses, however, adopt a position somewhere between these extremes. Decisions about which of these approaches to take, in turn, are affected by managerial ethics and social responsibility. This unit explores the basic issues of ethics. We look first at individual ethics and their organizational context.

## 3.0 **MAIN CONTENT**

### 3.1**The meaning of ethics**

Griffin (2002) defines ethics as an individual's personal beliefs about whether a behavior, action, or decision is right or wrong. What constitutes ethical behavior varies from one person to another. For example, one person who finds a ten thousand Naira on the floor believes that it is okay to stick it in his pocket, whereas another feels compelled to turn it in to the lost-and-found department. Further, although ethical behavior is in the eye of the beholder, it usually refers to behavior that conforms to generally accept social norms. Unethical behavior, then, is behavior that does not conform to generally accept social norms.

A society generally adopts formal laws that reflect the prevailing ethical standards-the social norms-of its citizens. For example, because most people consider theft to be unethical, laws have been passed to make such behaviors illegal and to prescribe ways of punishing those who do steal. But while laws attempt to be clear and unambiguous, their application and interpretation still lead to ethical ambiguities. For example, virtually everyone would agree that forcing employees to work excessive hours, especially for no extra compensation, is unethical. Accordingly, laws have been passed to define work and pay standards. But applying that law to organizational settings can still result in ambiguous situations that can be interpreted in different ways.

An individual's ethics are determined by a combination of factors. People start to form ethical standards as children in response to their perceptions of the behavior of their parents and/or other adults and the behaviors they are allowed to choose. As children grow and enter school, they are also influenced by peers with whom they interact every day. Dozens of important individual events also shape people's lives and contribute to their ethical beliefs and behavior as they grow into adulthood. Values and morals also contribute to ethical standards. People who place financial gain and personal advancement at the top of their list of priorities, for example, will adopt personal codes of ethics that promote the pursuit of wealth. Thus, they may be ruthless in efforts to gain these rewards, regardless of the costs to others. In contrast, people who clearly establish their family and/or friends as their top priority will adopt different ethical standards.

### 3.2 Areas of Managerial Ethics

Managerial ethics are the standards of behavior that guide individual managers in their work.

#### 3.2.1 How an Organization Treats Its Employees

One important area of managerial ethics is the treatment of employees by the organizations. This area includes things such as hiring and firing, wages and working conditions, and employee privacy and respect. For example, both ethical and legal guidelines suggest that hiring and firing decisions should be based solely on an individual's ability to perform the job. A manager who discriminates against African Americans in hiring is exhibiting both unethical and illegal behavior. But consider the case of a manager who does not discriminate in general, but occasionally hires a close friend or relative when other applicants might be just as qualified. While these hiring decisions may not be illegal, they may be objectionable on ethical grounds.

Wages and working conditions, while also tightly regulated, are also areas for potential controversy. For example, the fact that a manager is paying an employee less than he deserves, simply because the manager knows the employee cannot afford to quit or risk losing his job by complaining, might be considered unethical. Finally, most observers also would agree that an organization is obligated to protect the privacy of its employees. A manager's spreading a rumor that an employee has AIDS or is having an affair with a coworker is generally seen as an unethical breach of privacy. Likewise, the manner in which an organization responds to and addresses issues associated with sexual harassment also involves employee privacy and related rights.

### 3.2.2 How Employees Treat the Organization

Numerous ethical issues also stem from employee‘s at the organization, especially in regard to conflicts of interest, secrecy and confidentiality and honesty A conflict of interest occurs when a decision potentially benefits the individual to the possible detriment of the organization. To guard against such practices, most companies have policies that forbid their buyers from accepting gifts from suppliers. Divulging company secrets is also clearly unethical. Employees who work for businesses in highly competitive industries-electronics, software, and fashion apparel, for example-might be tempted to sell information about company plans to competitors. A third area of concern is honesty in general. Relatively common problems in this area include using business telephone to make personal long-distance calls, stealing supplies, ding expense accounts. While most employees are inherently honest, organizations must nevertheless be vigilant to avoid problems from behaviors such as these.

### 3.2.3 How Employees and the Organization Treat Other Economic Agents

Managerial ethics also come into play in the relationship between the firm and its employees and other economic agents. As listed previously Figure 4.1, the primary agents of interest includes customers, competitors, stockholders, suppliers, dealers, and unions. The behaviours between the organization and these agents that may be subject to ethical ambiguity include advertising and promotions, financial disclosures, ordering and purchasing, shipping and solicitations, bargaining and negotiation, and other business relationships, For example, businesses in the pharmaceuticals industry have been under growing fire because of the rapid for escalation of the prices they are charging for many of their drugs. These firms counter that they need to invest more heavily in research and development programs to develop new drugs, and that higher prices are needed to cover these costs. The key in situations like this, then, is to find the right balance between reasonable pricing and price gouging. And like so many questions involving ethics, there are significant differences of opinion. Another area concern in recent years involves financial reporting by various e-commerce firms. Because of the complexities inherent in these firms, some of them have been very aggressive in presenting their financial positions in a very positive light.

And in at least a few cases, some firms have substantially overstated their earnings projections to entice more investment.

Additional complexities faced by many firms today are the variations in ethical business practices in different countries. In many countries bribes and side payments are a normal and customary part of doing business. However, U.S. laws forbid these practices, even if a firm's rivals from other countries are paying them. For example, a U.S. power-generating company lost a $320 million contract in the Middle East because government officials demanded a $3 million bribe. A Japanese firm paid the bribe and won the contract. Enron Company had a big project in India cancelled because newly elected officials demanded bribes. While these kinds of cases are illegal under U.S. law, other situations are more ambiguous. In for example, local journalists expect their cabfare to be paid if they are to cover a business-sponsored news conference. In Indonesia the normal time to get a driver’s license for a foreigner is over a year, but it can be "expedited" for an extra $100. And in Romania, building inspectors routinely expect a "tip" for a favorable review. In Nigeria, people expected to be bribed before they can award a contract. The so called 10% kickback is popular among the people even though it is not officially allowed.

### 3.3 Ethics in an Organizational Context

It is also important to note that while ethics are an individual phenomenon, ethical or unethical actions by particular managers do not occur in a vacuum. Indeed, they most often occur in an organizational context that is conducive to them.

Actions of peer managers and top managers, as well as the organization's culture, all contribute to the ethical context of the organization?

The starting point in understanding the ethical context of management is, of course, the individual's own ethical standards. Some people, for example, will risk personal embarrassment or lose their job before they would do something unethical. Other people are much more easily swayed by the unethical behavior they see around them and other situational factors, and they may be willing to commit major crimes to further their own careers or for financial gain. Organizational practices may strongly influence the ethical standards of employees. Some organizations openly permit unethical business practices as long as they are in the best interests of the firm.

If managers become aware of unethical practices and allow them to continue, they have contributed to an organization culture that says such activity is permitted. For example, a few years ago Lars Bildman was fired from his post as CEO of Astra USA, a subsidiary of a large Swedish drug manufacturer, Astra AB. During his tenure with the firm, he allegedly sexually harassed dozens of Astra employees, used company funds to remodel his home, and took frequent company-paid privates with other company executives and prostitutes. While only Bildman was formally charged with criminal wrongdoing, dozens of senior managers apparently knew of the problems at Astra and either ignored them or began to participate in similar activities themselves. Thus, their collective behaviors served first to create and then to reinforce an environment that appeared to sanction those behaviors.

The organization's environment also contributes to the context for ethical behavior. In a highly competitive or regulated industry, for example, a manager may feel more pressure to achieve high performance. When managers feel pressure to meet goals or lower costs, they may explore a variety of alternatives to help achieve these ends. And in some cases, the alternative they adopt may be unethical or even illegal. The cartoon illustrates one way this can happen-if a manager feels pressure to get more work done, she or he may apply similar pressure on others to work extra hours, stay later in the evenings, and so forth.

## 3.4 Ethical Behavior

Spurred partially by increased awareness of ethical scandals in business and partially from a sense of enhanced corporate consciousness about the importance of ethical and unethical behaviors, many organizations have reemphasized ethical behavior on the art of employees. This emphasis takes many forms, but any effort to enhance ethical behavior must begin with top management. Top managers, for example, establish the organization's culture and define what will and will not be acceptable behavior. Some companies have also started offering employees training in how to cope with ethical dilemmas. At Boeing, for example, line managers lead training sessions for other employees, and the company also has an ethics committee that reports directly to the board of directors. The training sessions involve discussions of different ethical dilemmas that employees might face and how managers might handle those dilemmas. Chemical Bank and Xerox also have ethics training programs for their managers.

Organizations are also going to greater lengths to formalize their ethical standards. Some, such as General Mills and Johnson, have prepared guidelines that detail how employees are to treat suppliers, customers, competitors, and other constituents. Others, such as Whirlpool and Hewlett-Packards, have developed formal codes of ethics-formal, written statements of the values and ethical standards that guide a firm’s actions.

Of course, no code, guideline, or training program can truly make up for the quality of an individual’s personal judgement about what is right behavior and what is wrong behavior in a particular situation. Such devices may describe what people should do, but they often fail to help people understand and live with the consequences of their choices. Making ethical choices may lead to very unpleasant outcomes-firing, rejection by colleagues, and the forfeiture of monetary gain, to name a few. Thus managers must be prepared to confront their own consciences and weigh the options available when making difficult ethical decisions. Today’s Management Issues highlights an increasingly important issue that relates to this point, privacy and the Internet.

Unfortunately, what distinguishes ethical from unethical behavior is often subject to differences of opinion. So how does one go about deciding whether or not a particular action or decision is ethical? Traditionally, experts have suggested a three step model for applying ethical judgments to situations that may arise during the course of business activities. These steps are (1) gather the relevant factual information, (2) determine the most appropriate moral values, and (Derake an ethical judgment based on the rightness or wrongness of the proposed activity or policy.

But this analysis is seldom as simple as these few steps might imply. For in-what if the facts are not clear-cut? What if there are no agreed-upon moral values? Nevertheless, a judgment and a decision must be made. Experts point out that, otherwise, trust is impossible; and trust, they add, is indispensable to any business transaction. Thus, to assess more completely the ethics of a particular behavior, a more complex perspective is necessary. To illustrate this perspective, consider a common dilemma faced by managers involving their expense accounts. Companies routinely provide their managers with an account to cover their work-related expenses when they are traveling on company business and/or entertaining clients for business purposes. Common examples of such expenses include hotel bills, meals, rental cars or taxis, and so forth. But employees, of course, are expected to claim only expenses that are accurate and work-related. For example if a manager takes a client out to dinner while in another city on business and spend N5,000.00 for dinner, submitting a receipt for that dinner to be reimbursed for N5,000.00 clearly is clearly accurate and appropriate. Suppose, however, that the manager then has a N5,000.00 dinner the next night in that same city with a good friend for purely social purposes. Submitting that receipt for full reimbursement would be unethical. A few managers, however, might rationalize that it would be okay to submit a receipt for dinner with a friend. They might argue, for example, that they are underpaid and this is just a way for them to increase their income.

Other principles that come into play in a case like this include various ethical norms. For such norms involve utility rights, justice, and caring. By utility, we mean deciding whether a particular act optimizes what is best for its constituencies. By rights, we mean deciding whether a particular act respects the rights of the individuals involved. By justice, we mean deciding whether it is consistent with what we would see as being fair. And by caring, we mean deciding whether it is consistent with people's responsibilities to each other.

Now, reconsider the case of the inflated expense account. While the utility norm would acknowledge that the manager benefits from padding an expense account, others, such as coworkers and owners, do not. Similarly, most experts would agree that it does not respect the rights of others. Moreover, it is clearly unfair and compromises responsibilities to others. Thus, this particular act appears to be clearly unethical. However, the figure also provides mechanisms for considering unique circumstances that might fit certain limited situations. For example, suppose the manager loses the receipt for the legitimate dinner but has the receipt for the same amount for the social dinner. Some people would now argue that it is okay to submit the social dinner receipt because the manager is doing so only to get what he or she is entitled to. Others, however, would still argue that submitting the social dinner receipt is wrong under any circumstances. The point, simply, is that changes in the situation can make the issue more or less clear-cut.

## 6.0 CONCLUSION

As we have seen, ethics relate to individuals and their decisions and behaviors. Organizations themselves do not have ethics, but they do relate to their environment in ways that often involved ethical dilemmas and decisions.

## 7.0 SUMMARY

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Ethics are an individual's personal beliefs about what constitutes right and wrong behavior. It involves understanding with is right and wrong. It also involves knowing how our decisions affect others. In organizations, many decisions that managers make require them to consider who may be affected in terms of the result as well as the process. Important areas of ethical concern for managers are how the organization treats its employees, how employees treat the organization, and how the organization and its employees treat other economic agents. The ethical context of organizations consists of each manager's individual ethics and messages sent by organizational practices. Organizations use leadership, culture, training, codes, and guidelines to help them manage ethical behavior.

## 8.0 TUTOR MARKED ASSIGNMENT

What is ethics and why is it important in managerial decision making?

## 7.0 REFERENCES/FURTHER READING


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## UNIT 11 SOCIAL RESPONSIBILITY AND ORGANIZATIONS

**CONTENT**



### 1.0 INTRODUCTION

Organizations are supposed to pay attention to its stake holders if they are to operate effectively in their environment. Social responsibility represent to those an organization does to satisfy its stakeholders.

### 2.0OBJECTIVES

After reading this unit, you should be able to explain;

. The meaning of social responsibility,

. Areas of social responsibility

## 3 MAIN CONTENT

### 3.1 The meaning of Social responsibility

Social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions. Organizations may be considered responsible to their stakeholders, to the natural environment, and to the general social welfare.

### 3.2 Areas of Social Responsibility

Organizations may exercise social responsibility towards their stakeholders, toward the natural environment, and toward general social welfare. Some organizations acknowledge their responsibilities in all three areas and strive diligently to meet each of them, while others emphasize only one or two areas of social responsibility. And a few acknowledge no social responsibility at all.

#### 3.1.2 Organizational Stakeholders

In unit 2, we described the task environment as comprising those elements in an organization's external environment that directly affect the organization in one or more ways. Another way to describe these same elements is from the perspective of organizational stakeholder' or those people and organizations who are directly affected by the behaviours of an organization and that have a stake in its performance.

Most companies that strive to be responsible to their stakeholders concentrate first and foremost on three main groups: customers, employees, and investors. They then select other stakeholders that are particularly relevant or important to the organization and then attempt to address their needs and expectations as well.

Organizations that are responsible to their customers strive to treat them fairly and honestly. They also seek to charge fair prices, to honor warranties, to meet delivery commitments, and to stand behind the quality of the products they sell.

Companies that have established excellent reputations in this area include L.L. Bean, Land’s End, Dell Computer, and Johnson & Johnson.

Organizations that are socially responsible in their dealings with employees treat their workers fairly, make them part of the team, and respect their dignity and basic human needs. Organizations such as 3M Company, Hoescht Celanese, SAS Institute, and Southwest Airlines have all established strong reputations in this area. In addition, they also go to great lengths to find, hire, train, and promote qualified minorities. Working with Diversity also explains how some organizations today are helping their employees prepare for and compete in the Olympic Games.

To maintain a socially responsible stance toward investors, managers should follow proper accounting procedures, provide appropriate information to shareholders about the financial performance of the firm, and manage the organization to protect shareholder rights and investments. Moreover, they should be accurate and candid in their assessment of future growth and profitability and avoid even the appearance of improprieties involving such sensitive areas as insider trading, stock price manipulation, and the withholding of financial data.

The Natural Environment a second critical area of social responsibility relates to the natural environment. Not long ago, many organizations indiscriminately dumped sewage, waste products from production, and trash into streams and rivers, into the air and on vacant land. When Shell Oil first explored the Amazon River Basin for potential drilling sites in the late 1980s, its crews ripped down trees and left a trail of garbage in their wake. Now, however, many laws regulate the disposal of waste materials. In many instances, companies themselves have also become more socially responsible in their release of pollutants and general treatment of the environment. For example, when Shell launched its most recent exploration expedition into another area of the Amazon Basin, the group included a biologist to oversee environmental protection and an anthropologist to help the team interact more effectively with native tribes.

Still, much remains to be done. Companies need to develop economically feasible ways to avoid contributing to acid rain and global warming; to avoid depleting the ozone layer; and to develop alternative methods of handling sewage, hazardous wastes, and ordinary garbage. Procter & Gamble, for example, is an industry leader in using recycled materials for containers. Hyatt Corporation established a new company to help recycle waste products from its hotels. Monsanto is launching an entirely new product line aimed at improving the environment with genetically engineered crops. Ford has also announced its intention to create a new brand to cover the development and marketing of low-pollution and electric powered vehicles. The Internet is also seen as potentially playing an important role in resource conservation because many e-commerce businesses and transactions reduce both energy costs and pollution.

Companies also need to develop safety policies that cut down on accidents with potentially disastrous environmental results. When one of Ashland Oil's storage tanks ruptured several years ago, spilling more than five hundred thousand gallons of diesel fuel into Pennsylvania's Monongahela River, the company move quickly to clean up the spill but was still indicted for violating U.S. environment laws. After the Exxon oil tanker Valdez spilled millions of gallons of oil off the coast of Alaska, it adopted new and more stringent procedures to keep another disaster from happening.

### 3.2 General Social Welfare

Some people believe that in addition to treating constituents and the environment responsibly, business organizations should also p; mote the general welfare of society Examples include making contributions to charities, philanthropic organizations, and not-for-profit foundations and associations; supporting museums, symphonies, and public radio and television; and taking a role in improving public health and education. Some people also believe tit organizations should act even more broadly to correct the political inequities that exist in the world. For example, these observers would argue that businesses should not conduct operations in countries with a record of human rights violations. Thus, they stand in opposition to companies doing business in China and Vietnam.

### 3.3 Arguments For and Against Social Responsibility

On the surface, there seems to be little disagreement about the need for organizations to be socially responsible. In truth, though, those who oppose wide interpretations of social responsibility use several convincing arguments. Some of the more salient arguments on both sides of this contemporary debate are summarized further explained in the following sections.

#### 3.3.1 Arguments for Social Responsibility

People who argue in favor of social responsibility claim that because organizations create many of the problems that need to be addressed, such as air and water pollution and resource depletion, they should play a major role in solving them. They also argue that because corporations are legally defined entities with most of the same privileges as private citizens, businesses should not try to avoid their obligations as citizens. Advocates of social responsibility point out that while governmental organizations have stretched their budgets to the limit, many large businesses often have surplus revenues that could potentially be used to help solve social problems. For example, IBM routinely donates surplus computers to schools and many restaurants give leftover food to homeless shelters.

Although each of the arguments just summarized is a distinct justification for socially responsible behaviors on the part of organizations, another more general reason for social responsibility is profit itself. For example, organizations that make clear and visible contributions to society can achieve enhanced reputations and garner greater market share for their products. Although claims of socially responsible activities can haunt a company if they are exaggerated or untrue, they can also work to the benefit of both the organization and society if the advertised benefits are true and accurate.

#### 3.3.2 Arguments Against Social Responsibility

Some people, however, including the famous economist Milton Friedman, argue that widening the interpretation of social responsibility will undermine the U.S. economy by detracting from the basic mission of business; to earn profits for owners. For example, money that Chevron or General Electric contributes to social causes or charities is money that could otherwise be distributed to owners as a dividend. Ben & Jerry's Homemade Inc. has a very ambitious and widely touted social agenda. But some shareholders recently criticized the firm when it refused to accept a lucrative exporting deal to Japan simply because the Japanese distributor did not have a similar social agenda.

Another objection to deepening the social responsibility of businesses points out that corporations already wield enormous power and that their activity in social programs gives them even more power. Another argument focuses on the potential for conflict of interest. Suppose, for example, that one manager is in charge of deciding which local social program or charity will receive a large grant from her business. The local civic opera company (a not-for-profit organization that relies on contributions for its existence) might offer her front-row tickets for the upcoming season in exchange for her support. If opera is her favorite form of music, she might be tempted to direct the money toward the local company, when it might actually be needed more in other areas.

Finally, critics argue that organizations lack the expertise to understand how to assess and make decisions about worthy social programs. How can a company truly know, they ask, which cause or program is most deserving of its support, or how money might best be spent? For example, Exxon recently announced a commitment to spend $5 million to help save the tiger, an endangered species that serves as the firm's corporate symbol. Exxon committed most of the money to support breeding programs in zoos and to help educate people about the tiger. But conservationists criticized the firm and its plan, arguing instead that the money might have been better spent on eliminating poaching, the illegal trade of tiger fur, and the destruction of the tiger's natural habitat.

## 3.4 Organizational Approaches to Social Responsibility

As we have seen, some people advocate a larger social role for organizations, and others argue that the role is already too large. Not surprisingly, organizations themselves adopt a wide range of positions on social responsibility. As Figure 4.5 illustrates, the four stances that an organization can take concerning its obligations to society fall along a continuum ranging from the lowest to the highest degree of socially responsible practices.

### 3.4.1 Obstructionist Stance

The few organizations that take what might be called an obstructionist stance to social responsibility usually do as little as possible to solve social or environmental problems.

When they cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or avoid accepting responsibility for their actions. For example, when the various problems at Astra USA, noted earlier in the chapter, first began to surface, top officials at both that firm and its Swedish parent company all denied any wrongdoing.

Another more recent case of a firm taking this approach involves IBP, a major Iowa-based meat-processing firm with a truly checkered history in the early 1970s one of the firm's founders was found guilty of paying a mob-related meat broker $1 million to ensure that unions wouldn't interfere with the firm's New York City distribution plans. In the late 1970s the company was investigated for anticompetitive practices,

although this inquiry was subsequently dropped. In the 1980s, IBP was fined $2.6 million and penalized by OSHA for not reporting workers' hand injuries caused by its meatcutting equipment. The firm also has a long history of abysmal labor relations with its employees.
In January 2000 the U.S. Justice Department, acting on behalf of the Environmental Protection Agency filed a lawsuit accusing 113P of violating numerous federal air, water, and hazardous waste laws at the company's

Dakota City, Nebraska. Among the charges in this case are that the firm emitted up to 1,800 pounds of hydrogen sulfide per day from the Dakota City plant without informing federal regulators (disclosure is required if total emissions exceed 100 pounds per day) and that IBP violated the federal Clean Water Act by dumping excessive ammonia into the Missouri River. Moreover, the suit charges IBP with either failing to file or else filing incorrectly federal toxic-air reports at several of its plants in Iowa, Nebraska, and Kansas. In addition, various state agencies where IBP has operations are investigating numerous allegations against the company regarding pollution. Idaho's State Division of Environmental Quality has charged the firm with exceeding its state wastewater guidelines by as much as 1,200 percent. Illinois's state attorney general is seeking fines against 1BP for violating the state's odor law. And officials in Nebraska are closely watching the federal investigation to see if there have been violations that fall under state regulation.22

### 3.4.2 Defensive Stance

One step removed from the obstructionist stance is the defensive stance, whereby the organization does everything that is required of it legally but nothing more. This approach is most consistent with the argument used against social responsibility just described. Managers in organizations that take a defensive stance insist that their job is to generate profits. For example, such a firm would install pollution-control equipment dictated by law but would not install higher-quality equipment even though it might limit pollution further. Tobacco companies such as Philip Morris take this position in their marketing efforts. In the United States, they are legally required to include warnings to smokers on their products and to limit their advertising to prescribed media. Domestically they follow these rules to the letter of the law but use broader marketing methods in countries that have no such rules. In many African countries, for example, cigarettes are heavily promoted, contain higher levels of tar and nicotine than those sold in the United States, and carry few or no health warning labels.23 Firms that take this position are also unlikely to cover up wrongdoing and will generally admit their mistakes and take appropriate corrective actions.

### 3.4.3 Accommodative Stance

A firm that adopts an accommodative stance meets its legal and ethical obligations and also goes beyond these requirements in selected cases. Such firms voluntarily agree to participate in social programs, but solicitors have to convince the organization that the programs are worthy of their support. Both Exxon and IBM, for example, will match contributions made by their employees to selected charitable causes. And many organizations will respond to requests for donations to Little League, Girl Scouts, youth soccer programs, and so forth. The point, though, is that someone has to knock on the door and ask-the organizations do not proactively seek such avenues for contributing.

### 3.4.4 Proactive Stance

The highest degree of social responsibility that a firm can exhibit is the proactive stance. Firms that adopt this approach take to heart the argument in favour of social responsibility. They view themselves as citizens in a society and proactively seek opportunities to contribute to the society. An excellent example of a proactive stance is the Ronald McDonald House program undertaken by McDonald's Corp. These houses, located close to major medical centers, can be used by families for minimal cost while their sick children are receiving medical treatment nearby. Sears offers fellowships that support promising young performers while they develop their talents. Target has stopped selling guns in its stores, while some national toy retailers such as KayBee and Toys "R" Us have voluntarily stopped selling realistic toy guns. These and related activities and programs exceed the accommodative stance-they indicate a sincere and potent commitment to improving the general social welfare in this country and thus represent a proactive stance to social responsibility.

Remember that these categories are not discrete but merely define stages along a continuum of approach. Organizations do not always fit neatly into one category. The Ronald McDonald House program has been widely applauded, for example, but McDonald's also came under fire a few years ago for allegedly misleading consumers about the nutritional value of its food products. And even though Astra and IBF took an obstructionist stance in the cases we cited, many individual employees and managers at both firms have no doubt made substantial contributions to society in several different ways.

An especially important element of social responsibility is the relationship between business and government. For example, in planned economies the government heavily regulates business activities, ostensibly to ensure that business supports some overarching set of social ideals. And even in market economies there is still considerable government control of business, much of it again directed at making sure that social interests are not damaged by business interests. On the other side of the coin, however, business also attempts to influence the government. Such influence attempts are usually undertaken in an effort to offset or reverse government restrictions.

## 3.5 How Government influences Organizations

The government attempts to shape social responsibility practices through both direct and indirect channels. Direct influence is most frequently manifested through regulation, whereas indirect influence can take a number of forms, most notably taxation policies.

### 3.5.1 Direct Regulation

The government most often directly influences organizations through refutation, or the establishment of laws and rules that dictate what organizations can and cannot do. As noted earlier in the chapter, this regulation usually evolves from societal beliefs about what businesses should or should not be allowed to do. To implement legislation, the government generally creates special agencies to monitor and control certain aspects of business activity. For example, the Environmental Protection Agency handles environmental issues; the

Federal Trade Commission and the Food and Drug Administration focus on consumer-related concerns; the Equal Employee Opportunity Commission, the National Labor Relations Board, and the Department of Labor help protect employees; and the Securities and Exchange Commission handles investor-related issues. These agencies have the power to levy fines or bring charges against organizations that violate regulations.

### 3.5.1 Indirect Regulation

Other forms of regulation are indirect. For example, the government indirectly Influence the social responsibility of organizations through its tax codes. In effect the government can influence how organizations spend their social responsibility dollars by providing greater or lesser tax incentives. For instance, suppose that the government wanted organizations to spend more on training the hard-core unemployed. Congress could then pass laws that provide tax incentives to companies that opened new training facilities. As a result, more businesses would probably do so. Of course, some critics argue that regulation is already excessive. They maintain that a free market system would eventually accomplish the same goals as regulation with lower costs to both organizations and the government.

## 3.6 How Organizations Influence Government

Organizations can influence their environment in many different ways. In particular, businesses have four main methods of addressing governmental pressures for more social responsibility.

### 3.6.1 Personal Contacts

Because many corporate executives and political leaders travel in the same social circles, personal contacts and networks offer one method of influence. A business executive, for example, may be able to contact a politician directly and present his or her case regarding a piece of legislation being considered.

### 3.6.2 Lobbying

Lobbying or the use of persons or group to represent an organization or group of organization formally before political bodies, is also an effective way to influence the government. The National Rifle Association (NRA), for example, has a staff of lobbyists in Washington with a large annual budget. These lobbyists work to represent the NRA's position on gun control and potentially to influence members of Congress when they vote on legislation that affects the firearms industry and the rights of gun owners.

### 3.6.3 Political Action Committees

Companies themselves cannot legally make direct donations to political campaigns, so they influence the government through political action committees. political action committees (PACs) ire organizations created to solicit and distribute money to political candidate Employees of a firm may be encouraged to make donations to particular PACs lit cause managers know that it will support candidates with political views similar to their own. PACs, in turn, make the contributions themselves, usually to a broad slate of state and national candidates. For example, Federal Express's PAC is called Fepac. Fepac makes regular contributions to the campaign funds of political candidates who are most likely to work in the firm's best interests.

### 3.6.4 Favors

Finally, organizations sometimes rely on favors and other influence tactics to gain support. Although these favors may be legal, they are still subject to ism. A few years back, for example, two influential members of a House corn-e attending a fund-raising function in Miami were needed in Washington to work on a piece of legislation that Federal Express wanted passed. The law drafted would allow the company and its competitors to give their employees standby seats on airlines as a tax-free benefit. As a favor, Federal Express pro-one of its corporate jets to fly the committee members back to Washington company was eventually reimbursed for its expenses so its assistance was not but some people argue that such actions are dangerous because of how it might be perceive

## 4.0 CONCLUSION

Social responsibility is an important element for effective management of organizations. Organizations must respond to its obligations, beyond that required by law and economics, to pursue long-term goals that are good for the society.

## 5.0 SUMMARY

Social responsibilities are the set of responsibilities which an organization renders to its stakeholders. These stakeholders are the employees, customers, shareholders and indeed the society at large. Some people have argued in fabour of social responsibility, while others have opposed to that. There are different approaches to undertake social responsibility. These include obstructive stance, defence stance, accommodative stance, and proactive stance. Government influences social responsibility in a number of ways, which are direct regulation, indirect, regulation. Organizations also influence government through personal contacts, lobbying, political action, and committees.

## 6.0 TUTOR MARKED ASSIGNMENT

What are the arguments for and against social responsibility in organizations?

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## Unit 12 Managing Social Responsibility
**CONTENT**

1.0 Introduction

2.0 Objectives

3.0 Main Content

## 1.0 INTRODUCTION

The Demands for social responsibility placed on contemporary organizations by an increasingly sophisticated and educated public are probably stronger than ever. As we have seen, there are pitfalls for managers who fail to adhere to high ethical standards and for managers who that try to circumvent their legal obligations. Organizations therefore need to fashion an approach to social responsibility the same way that they develop any other business strategy; that is, they should view social responsibility as a major challenge that requires careful planning, decision making, consideration, and evaluation. They may accomplish their approach through both formal and informal dimensions of managing social responsibility.

## 2.0 OBJECTIVES

After reading this unit, students should be able to understand the following as a means of managing social responsibility

. Formal Organizational Dimensions

. Informal Organizational Dimensions

. Ways of evaluating social responsibility

.

## 3.0 MAIN CONTENT

### 3.1 Formal Organizational Dimensions

Some dimensions of managing social responsibility are formal and planned activities on the part of the organization. Formal organizational dimensions that can help manage social responsibility are legal compliance, ethical compliance, and philanthropic giving.

### 3.1.2 Legal Compliance

Legal compliance is the extent to which the organization complies with local, state, federal, and international laws. The task of managing legal compliance is generally assigned to the appropriate functional managers. For example, the organization's top human resource executive is responsible for ensuring compliance with regulations concerning hiring, pay, and workplace safety and health. Likewise, the top finance executive generally oversees compliance with securities and banking regulations. The organization's legal department is also likely to contribute to this effort by providing general oversight and answering queries fm managers about the appropriate interpretation of laws and regulations.

### 3.1.2 Ethical Compliance

Ethical compliance is the extent to which an organization and its members follow basic ethical (and legal) standards of behavior. We noted earlier that organizations have increased their efforts in this area-providing training in ethics and developing guidelines and codes of conduct, for example. These activities serve as vehicles for enhancing ethical compliance. Many organizations also establish formal ethics committees, which may be asked to review proposals for new projects, help evaluate new hiring strategies, or assess a new environmental protection plan. They might also serve as a peer review panel to evaluate alleged ethical misconduct by an employee.

### 3.1.3 Philanthropic Giving

Finally, philanthropic giving is the awarding of funds or gifts to charities or other social programs. Dayton-Hudson Corp. routinely gives 5 percent of its taxable income to charity and social programs. Giving across national boundaries is also becoming more common. For example, Alcoa gave 112,000 to a small town in Brazil to build a sewage treatment plant. And Japanese firms like Sony and Mitsubishi make contributions to a number of social programs in the United States. Unfortunately, in this age of cutbacks, many corporations ha also had to limit their charitable gifts over the past several years as they continue to trim their own budgets. And many firms that continue to make contributions are increasingly targeting them to programs or areas where the firm will get something in return. For example, firms today are more likely to give money to job training programs than to the arts, which wasn't the case just a few years ago. The logic is that they get more direct payoff from the former type of contribution-in this instance, a better trained workforce from which to hire new employees.

## 3.2 Informal Organizational Dimensions

In addition to these formal dimensions for managing social responsibility, there are also informal ones. Leadership, organization culture, and how the organization responds to whistle blowers each helps shape and define people's perceptions of the organization's stance on social responsibility.

### 3.2.1 Organization Leadership and Culture

Leadership practices and organization culture can go a long way toward defining the social responsibility stance an organization and its members will adopt. For example, Johnson & Johnson executives for years provided a consistent message to employees that customers, employees, communities where the company did business, and shareholders were all important-and primarily in that order. Thus, when packages of poisoned Tylenol showed up on store shelves in the 1980s, Johnson & Johnson employees didn't need to wait for orders from headquarters to know what to do: they immediately pulled all the packages from shelves before any other customers could buy them.  By contrast, the message sent to Astra USA employees by the actions of their top managers communicates much less regard for social responsibility.

### 3.2.2 Whistle-Blowing

Whistle-blowing is the disclosure by employee of illegal or unethical conduct on the part of others within the organization. How an organization responds to this practice often indicates its stance toward social responsibility. Whistle blowers may have to proceed through a number of channels to be heard, and they may even get fired for their efforts. Many organizations, however, welcome their contributions. A person who observes questionable behavior typically first reports the incident to his or her boss. If nothing is done, the whistle blower may then inform higher level managers or an ethics committee if one exists. Eventually, the person may have to go to a regulatory agency or even the media to be heard. For example, Charles W. Robinson Jr. once worked as a director of a SmithKline lab in San Antonio. One day he noticed a suspicious billing pattern the firm was using to collect lab fees from Medicare that were considerably higher than the firm's normal charges for those same tests. He pointed out the problem to higher level managers, but his concerns were ignored. He subsequently took his findings to the U.S. government which sued SmithKline and eventually reached a settlement of $325 million.

## 3.3 Evaluating Social Responsibility

Any organization that is serious about social responsibility must ensure that its efforts are producing the desired benefits. Essentially this assurance requires applying the concept of control to social responsibility. Many organizations now require current and new employees to read their guidelines or code of ethics and then sign a statement agreeing to abide by it. An organization should also evaluate how it responds to instances of questionable legal or ethical conduct. Does it follow up immediately? Does it punish those involved? Or does it use delay and cover-up tactics? Answers to these questions can help an organization form a picture of its approach to social responsibility.

More formally, an organization may evaluate the effectiveness of its social responsibility efforts. For example, when Amoco recently established a job training program in Chicago, it allocated additional funds to evaluate how well the program was meeting its goals. Some organizations occasionally conduct corporate social audits. A corporate social audit is a formal and thorough analysis of the effectiveness of the firm's social performance. The audit is usually conducted by a task force of high-level managers from within the firm. It requires that the organization clearly define all its social goals, analyze the resources it devotes to each goal, determine how well it is achieving the various goals, and make recommendations about which areas need additional attention.

Ben & Jerry's conducts a formal audit of its social responsibility programs each year and publishes the results-favorable or otherwise-in its annual report. For example, one recent audit found that the firm was using a misleading label on one of its ice cream products. This criticism was published in the firm's next annual report, along with a promise both to correct the error and to strive to avoid similar problems in the future. Unfortunately, such audits are not conducted often because they are expensive and time consuming. Indeed, most organizations probably could do much more to evaluate the extent of their social responsibility than they do.

## 4.0 CONCLUSION

It should clear that social responsibility is becoming more popular in organizations and some organizations are using it gain competitive advantage. It should be noted that social responsibility is not something that just "happens" Instead, like other organizational activities, it must be actively managed.

## 5.0 SUMMARY

Organizations use three types of activities to manage social responsibility formally: leg compliance, ethical compliance, and philanthropic giving. Leadership, culture, and whistle blowing are informal means for managing s responsibility.

Organizations should evaluate the effectiveness of their socially responsible practices as they would any other strategy.

## 6.0 TUTOR MARKED ASSIGNMENT

Discuss the various ways in which an organization can manage its social responsibility.

## 7.0 REFERENCES/FURTHER READING

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## MODULE 4 THE INTERNATIONAL BUSINESS ENVIRONMENT



## UNIT 13; THE NATURE OF INTERNATIONAL BUSINESS

CONTENT

## 1.0 INTRODUCTION

Organizations around the world are going international. Indeed most big companies today are either international or multinational companies. In this unit, we shall consider the nature of global organizations. We shall first consider the meaning of international organizations and thereafter we shall consider the processes involved in going international. We shall also consider the structure of the global economy.

## 2.0 OBJECTIVES

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

1. The meaning of international business
2. Stages of global organizations
3. The structure of the global economy

## 3.0 MAIN CONTENT

### 3.1 The meaning of international business

International or global Business is any business that is carried out in more than one country. Daft (1997) maintains that the fundamental tasks of business management, including financing, production, and distribution of products and services do not change in any substantive way when a company goes international. The basic management functions of planning, organizing, leading, and controlling are the same whether a company operates domestically or internationally. However, managers will experience greater difficulties and risks when performing these management functions on an international scale.

Williams (2005) described Global business as the buying and selling of goods and services by people in different countries. In other words we can say that global business involves a company operating in more than one country. In recent times, international business has gained greater visibility and importance because of the growth of some large international corporations. International businesses engage in transaction across national boundaries. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries.

Indeed, there are many forms and levels of international business. While the lines that distinguish one from another are perhaps arbitrary, we can identify four general levels of international activity that differentiate organizations. These levels according to Griffin (2002) are as follows; A domestic business acquires essentially all its resources and sells all its products or services within a in a single country. Most small businesses are essentially domestic in nature, as are many banks, retailers, agricultural enterprises, and service firms. An international business is one that is primarily based in a single country but acquires some meaningful share of its resources or revenue or both from other countries. A multinational business on the other hand has a worldwide marketplace from which it buys raw materials, borrows money, and manufactures its products and to which it subsequently sells its products. A global business is one that transcends national boundaries and not committed to a single home country. Although no business has truly achieved this level of international involvement, a few are edging closer and closer.

### 3.2 stages of international Business

Companies have a couple of ways to become involved internationally. International managers must decide on the best means of going international. One way of going international is to seek cheaper sources of supply offshore, which is called outsourcing. Other basic ways are exporting, licensing, franchising, entering into a joint venture with a host country company, and setting up a wholly owned subsidiary in the host country. We shall discuss more about all these in detail.

#### 3.2.1Outsourcing

Global outsourcing, sometimes called global sourcing, means engaging in the international division of labour so that manufacturing can be done in countries with the cheapest sources of labour and supplies. A company may take away a contract from a domestic supplier and place it with a company in the far East, several miles away. With advances in telecommunications, service providers can outsource as well. For example, Citibank taps low cost skilled labour in India, Hong Kong, Australia, and Singapore to manage data and develop products for global financial services.

#### 3.2.2Importing and Exporting

Importing or exporting is usually the first type of international business in which a firm gets involved. Exporting is the making of a product or service in the firm’s domestic marketplace and selling it in another country. Importing on the other hand is bringing a good, service, or capital into the home country from abroad. Take for example Nigeria produces crude oil and exports it to different countries.

Import and exporting have several advantages. One of such advantages is that it is the easiest way of entering a market with a small outlay of capital. Furthermore the products can be sold without further processing and there may be no need to adapt the product to local conditions. More also little risk is associated with this method. However there are some disadvantages as well, for example, import and export are subject to taxes, tariffs, and higher transportation expenses. Also since the products may not be adapted to local conditions, they may miss the needs of a large segment of the market. Moreover, some products may be restricted and thus can be neither imported nor exported.

#### 3.2.3 Licensing and franchising

A company may prefer to arrange for a foreign company to manufacture or market its products under a licensing agreement. Licensing therefore involves, a company giving another the authority to produce its product under an agreement that will both companies. Licensing and franchising are similar approaches since both involve an organization giving another organization the right to use its brand name, technology, or product specifications in return for lump-sum payment or a fee usually based on sales. The only difference is that licensing is primarily used by manufacturing organizations while franchising is used by service organizations.

### 3.2.4 Strategic Alliances

Strategic alliance involves two or more firms jointly cooperate for mutual gain. It involves partnership between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of the alliance. For example, IBM of United States, Toshiba of Japan, and Siemens of Germany formed a partnership to develop new generation of computer chips. Another example was when Kodak and Fuji, along with three major Japanese camera manufacturers collaborated on the development of a new film cartridge. This collaboration allowed Kodak and Fuji to share developmental costs, prevented an advertisement war had it been that two firms developed different cartridges. It also made it easier for new cameras to be introduced at the same time as the new film cartridges.

### 3.2.5 Joint venture

Joint venture is a specific type of strategic alliance in which partners agree to form a separate, independent organization for some business purpose. In other words, joint venture occurs when two existing companies collaborate to form a third company. The two founding companies remain intact and unchanged, except that, together, they now own the newly created joint venture. An example of a global joint ventures is Fuji-Xerox, which is a joint venture between Fuji photo film of Japan and Xerox corporation based in the United States, which makes copiers and automated office systems.

One of the advantages of joint venture is that it provides a fast and less expensive way for companies to compete globally than doing it on an individual bases. Global joint ventures is advantageous to smaller local partners that link up with larger, more experienced foreign firms that can bring advanced management, resources, and business skills to the venture. Another advantage is that global joint venture like licensing and franchising helps companies avoid tariff and nontariff barriers to entry. Furthermore companies participating in joint venture bear only part of the costs and the risks of that business.

However global joint equally has some disadvantages. As companies in global joint venture share costs and risks so as they do share profits. Sharing of profits could create some problems among the companies. Managing global joint ventures can also be difficult because they represent a merger of four cultures; the country and organizational cultures of the first partner, and the country and the organizational cultures of the second partner. Because of these problems, it is suggested that companies forming global joint ventures should carefully develop detailed contracts that specify the obligations of each party.

### 3.2.5 Wholly Owned Affiliates (Build or Buy)

It is estimated that one third of multinational companies enter foreign markets through wholly owned affiliates. Unlike licensing, franchising, or joint ventures, wholly owned affiliates are 100 percent owned by the parent company that formed it. For example, Honda motors of America in Maryville, Ohio, is 100 percent owned by Honda Motors of Japan. Ford motor of Germany in Cologne is 100 percent owned by the Ford motor Company in Detroit, Michigan, United States.
Wholly owned affiliates have some advantages. One of such advantages is that the parent company receives all the profits and has complete control over foreign facilities. A disadvantage is the huge expense involved in building new operations or buying existing businesses. Of course, the payoff can be enormous if wholly owned affiliates succeed, the losses can be immense if they fail because the parent company assumes all of the risk.

## 4.0 CONCLUSION

International business is gaining more ground and is very useful for the economic developments of nations across the world. Organizations go international in a number of ways.

## 5.0 SUMMARY

International business maintains significant operations in more than one country. The various operational options available to a company going international include, exporting which is an approach to going global that involves making products at home and selling them overseas. Importing is an approach to going global that involves selling products at home that are made overseas. Licensing is an approach to going global by manufacturing organizations that involves giving other organizations the right to use a company's name, technology, or product specifications. Franchising occurs when a service firm called the franchisor gives the right to another service organization called the franchisee to use its brand name, technology or product specifications. Strategic alliance is an agreement in which two companies combined together to do business. Joint venture is a type of strategic alliance in which two existing companies collaborate to form a third, independent company. Wholly owned affiliates are foreign offices, facilities and manufacturing plants that are 100 percent owned by the parent company.

## 6.0 TUTOR MARKED QUESTION

What do you understand by the word international business and what are the alternative operational strategies available to a company wishing to go international?

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## UNIT 14 ENVIRONMENTAL CHALLENGES OF INTERNATIONAL BUSINESS

CONTENT

## 1.0 INTRODUCTION

Let us at this point consider the environmental challenges that face the international business organizations. Three major environmental challenges need further discussion and these include the economic environment, the political/legal environment, and the cultural environment.

## 2.0 OBJECTIVE

After reading this unit, you should be able to explain

. The international economic environment

. The international political/legal environment

. The International cultural environment

### 3.1 The international economic environment

We can identify three aspects of the economic environment that are useful to managers operating internationally. These shall be discussed under the economic system, natural resources, and infrastructure.

#### 3.1.1 Economic System

Let us first consider the economic system of a country. Most countries all over the world today are moving toward market economy, the key element here is freedom of choice. Consumers are free to decide on what products and services they prefer to purchase. Firms are also free to decide on what products or services to provide. It therefore follows that as long as both the consumers and the producers are free to decide on what products or services to buy or produce in the market, then supply and demand determine which firms and what products will be available.

Another fundamental characteristic of market economies which is also related to above factor is concerned with the nature of property ownership. There are two distinctive types, which are complete private ownership and complete public ownership. In private ownership, individuals and organizations own and operate companies that carry out business activities. Here government is less concerned with running businesses. However in systems with public ownership, the government directly owns the companies that manufacture and sell products. Few countries have pure systems of private ownership or pure systems of public ownership. Most countries tend toward one extreme or the other, but usually a mix of public and private ownerships exists.

### 3.1.2 Natural Resources

Natural Resources is another aspect of the economic environment. A broad range of resources are available in different countries which help to promote economic activities. There some countries which have a lot of natural resources while others don't. The United States has a lot of natural resource such as crude oil, natural gas, coal, iron ore, copper, uranium, and other metals and materials that are important to the economic development of a modern economy. Japan on the other hand very few resources on their own and have to depend on importation of most of the resources needed for industrial activities.

One of the vital natural resources in the modern global economy is crude oil. Nigeria produces crude oil along with other nations like Saudi Arabia, Iraq, Iran, and Kuwait. Some of these countries have attracted many international businesses into their country because of this important natural resource.

### 3.1.3 Infrastructure

Infrastructure is also an important aspect of the economic environment that is of relevance to international business management. Infrastructure consists of physical things such as roads, railways, schools, hospitals, communication systems, electricity, air ports, and so on. While some countries have highly developed infrastructures, others lacked them. Countries like United States, Japan, Britain, Canada, France, Sweden, Denmark, and Germany to mention just a few have highly developed infrastructures that have affected the development of international businesses in these areas. Others like Nigeria, Sudan, Kenya, Peru, Chile, and Pakistan to mention just a few have poorly developed infrastructure that discouraged international business. The poor electricity supply in Nigeria discouraged many international organizations from investing in the country. In some cases interested companies may have to build their own infrastructure such as houses, schools, hospitals, and others in order to attract international workforce.

## 3.2 The Political/Legal Environment

A second environmental challenge facing the international manager is the political/legal environment in which he or she will do business. *Today's Management Issues* describes how the political/legal environment affects immigration policies. Four other especially important aspects of the political/legal environment of international management are government stability, incentives for multinational trade, controls on international trade, and the influence of economic communities on international trade.

***3.2.1 Government Stability***. Stability can be viewed in two ways ----as the ability to be given government to stay in power against other opposing factors in the country and as the permanence of government policies toward business. A country that is stable in both respects is preferable because managers have a higher probability of successfully predicting how government will affect their business. Civil war in countries such as Lebanon has made it virtually impossible for international managers to predict what the government policies are likely to be and whether the government will be able to guarantee the safety of international workers. Consequently, international firms have been very reluctant to invest in Lebanon.

In many countries—the United States, Great Britain, and Japan, for example—changes in government occur with very little disruption. In other countries—India, Argentina, and Greece, for example—changes are likely to be somewhat chaotic. Even if a country's government remains stable, the risk remains that the policies that the policies adopted by that government might change. In some countries foreign businesses may be **nationalized** (taken over by the government) with little or no warning. The government of Peru once nationalized Perulac, a domestic milk producer owned by Nestle, because of a local milk shortage.

***3.2.2 Incentives for International Trade*** – Another facet of the political environment is incentives to attract foreign business. For example, the state of Alabama offered Mercedes-Benz huge tax breaks and other incentives to entice the German firm to select a location in that state for a new factory. In like fashion, as noted earlier, the French government sold land to The Walt Disney Company far below its market value and agreed to build a connecting freeway in exchange for the company's agreement to build its European theme outside Paris. Such incentives can take a variety of forms. Some of the most common include reduced interest rates on loans, construction subsidies, and tax incentives. Less developed countries tend to offer different packages of incentives. In addition to the raw materials and equipment, market protection through limitations on other importers, and the right to take profits out of country. They may also have to correct deficiencies in their infrastructures. As noted above, to satisfy the requirements of foreign firms.

***3.2.3 Controls on International Trade*** a third element of the political environment that managers need to consider is the extent to which there are controls on international trade. In some instances, the government of a country may decide that foreign competition is hurting domestic trade. To protect domestic business, such governments may enact barriers to international trade. These barriers include tariffs, quotas, export restraint agreement, and "buy national" laws. Let us briefly consider the meaning of these terms

**Tariff,**

A tariff is tax collected on goods shipped across national boundaries. Some countries impose heavy tariffs to discourage foreign goods from being imported into their countries. For example Nigeria imposes heavy import tariffs on some goods imported into the country in order to protect infant industries. Japan charges U.S. tobacco producers a tariff on cigarettes imported into Japan as a way to keep their prices higher than the prices charged by domestic firms. Tariffs can also be levied, usually by less developed countries in order to raise money for the government.

**Quota**

A quota is a limit on the number or value of goods that can be traded. Quotas are the most common form of trade restriction. The quota amount is typically designed to ensure that domestic competitors will be able to maintain certain market share.

**Export restrict agreements**

These are agreements reached by governments in which countries voluntarily limit the volume or value of goods they export and import from one another. They are designed to convince other governments to limit voluntarily the volume or value of goods exported to a particular country. They are in effect, export quotas. For example Japanese steel producers voluntarily limit the amount of steel they send to the United States each year.

## 3.2.4 ECONOMIC COMMUNITIES

An international economic community is a set of countries that agree to reduce or eliminate trade barriers among its member nations. The first and most important among these is the European Union (EU). Other equally important economic communities include North American Free Trade Association (NAFTA), Latin American, Integration Association which covers Bolivia, Brazil, Colombia, Chile, Argentina and other South American countries. We also have the Caribbean Common Market which covers the Bahamas, Belize, Jamaica, Antigua, Barbados, and twelve other countries. Here in West Africa, we have the Economic countries of West Africa States (ECOWAS) which consists of Nigeria, and other West African countries that came together to promote trade in the area.

It should be noted that these trade relations between countries can either help or hinder international business. Restrictions on other countries such as quotas, tariffs, and others can hurt international trade. However there are plans around the world to reduce many of these barriers. If done successfully, this movement will promote international business.

### 3.3 The Cultural Environment

Another global environmental challenge of international business is cultural environment. There are cultural differences between nations. As organizations have different cultures so do countries have their own cultures. National culture is the values, and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.

The question is which is more important- national culture or organizational culture? For example, is an IBM facility in Germany more likely to reflect Germany culture or IBM's corporate culture? Research indicates that National culture has a greater effect on employees than does their organization's culture. Germany employees at an IBM facility in Munich will be influenced more by Germany culture than IBM's culture. This means that as influential as organizational culture may be on managerial practice, national culture is even more influential.

## 4.0 CONCLUSION

The international business environment presents new challenges for managers of international organizations. Three environmental challenges are very important to an international manager. These varies were highlighted under the economic, legal/political and the cultural environment.

## 5.0 SUMMARY

In this unit, we have discussed the environmental factors that influence international business environment. The economic environment is one of the variables that influence the international business. Important challenges here include the economic system, natural resources, and infrastructure. Another environmental challenge we considered was the political/ legal environmental challenges. Four important factors considered here were government stability, incentives for multinational trade, controls on international trade and the influence of economic communities on international trade. We also highlighted the importance of cultural dynamics at work and noted the nation culture where a company operates could be more influential to the company than the organization's culture.

## 6.0 TUTOR MARKED ASSIGNMENT

Discuss three environmental factors that affect the operations of an international business organization.

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**UNIT 15 Global comparative management**

CONTENT



**INTRODUCTION**

This unit considers some of the factors that influence management in some few selected countries of the world. We shall consider mostly the advanced nations of the world since most of the international businesses are found in these countries.

9.0 After reading this unit , you should be able to explain

. Factors influencing managing in Western countries

. Management in Korean

. Management in Japan

. Management in Germany

**3.0 MAIN CONTENT**

## 3.1 Selected Factors Influencing Managing in Western Countries

Managing in Australia is influenced by the country's moralistic stance and emphasis on political and social values, achievement, and risk taking.

Italian managers operate in an environment of low tolerance for risks. Italians are very competitive, but at the same time they like group decision making.

Management in Austria (and Germany) is characterized by self-realization and leadership. Independence and competitiveness are valued. Tolerance for risk taking is rather low.

In Britain, job security is important, and so are resourcefulness, adaptability, and logic. Individualism is also highly valued.

Managers in European countries manage in different ways. Yet there are some commonalities, as interviews with top managers from European firms found:

- European managers think of themselves as being more people-oriented then American managers are.
- A great deal of negotiation takes place within European firms, such as between management and workers or unions and between headquarters and subsidiaries. The practice of codetermination in large German firms may be an illustration of such extensive negotiations. European managers perceive the American style as more top-down.
- Europeans also have developed great skills in managing international diversity. Managing across borders is achieved more through people than through structures and procedures. The ability of most European managers to speak several languages facilitates the "people approach".
- European mangers operate between the extremes of short-term profit orientation (of American managers, as perceived by European managers) and the long-term growth orientation of Japanese managers.

European managers, on the other hand, have adopted many managerial techniques from the Americans, they also could learn from American entrepreneurship. In the global environment, with free flow of information and MNCs operating in many countries, there may be some convergence of managerial approaches.

### Korean Management

Japanese management receives a great deal of attention, partly because of the economic success of Japanese companies in the past. The Republic of Korea (South Korea here referred to as Korea)has also shown remarkable economic growth, but the Asian economic crisis that began in 1997 resulted in a dramatic downturn of its economy. Korean management practices are not well known. It would be incorrect to assume that Korean management is simply an extension of Japanese management. It is not, although there are some cultural and structural similarities, such as the dominance of powerful conglomerate companies. The Korean model has been characterized by the ***chaebol***, a tight collusion between government and industrial conglomerates. However, Kim Young Sam, when he was the Korean President, suggested: “we need a better balance between big and small companies. We cannot just let the chaebol system, which puts the emphasis on outward expansion that burdens the people, has come to an end.

In Japan, managers emphasize group harmony and cohesion expressed in the concept of *wa* ; the Korean concept of *inhwa* also translates into harmony, but with less accent on group values. Korean organizations are quite hierarchical; the factors affecting hiring decisions often include the school attended or being from the same geographic region as the top person. The leadership style can be best described as top-down, or autocratic/paternalistic. Thi9s approach enables the firm to adjust quickly to demands in the environment by issuing commands. Lifetime employment does not prevail. Indeed, the labor turnover rates are high when compared to resignations rather than dismissals. All in all, Korean management is different from both Japanese and American management practices.

### Japanese Management and Theory Z

Japan. One of the leading industrial nations in the world, has adopted managerial practices that are quite different from those of other economically advanced countries in the Western world. The discussion here deals with two common Japanese practices: lifetime employment and consensus decision making. Then it compares and contrasts Japanese and U.S. managerial practices, including Theory Z. In closing sections of parts 2 to 6 of this book, other managerial practices in Japan are discussed and compared with those in the United States and China.

### Lifetime employment

Important features of Japanese management are lifelong employment for permanent employees (related to the managerial function of staffing), great concern for the individual employee, and emphasis on seniority.

Typically, employees spend their working life with single enterprise, which in turn gives employees security and a feeling of belonging. This practice brings the culturally induced concept of ***wa***(harmony) to the enterprise,resulting in employee loyalty and close identification with the aims of the company. However, it is also adds to business costs because employees are kept on the payroll even when there is insufficient work. Consequently, firms are beginning to question this practice. Indeed, changes appear to be in the making, but they are slow. What is often overlooked, however, is that this permanent employment practice is used primarily by large firms. In fact, it is estimated that the job security system applies to only about one-third of the labor force.

Japanese workers endured long working hours are sometimes poor working conditions in exchange for lifetime employment. While this practice still prevails in m any companies, some companies do not provide their workers with sufficient safety net of employment. This insecurity may have contributed to making Japanese workers the least satisfied among seven countries surveyed.

A study conducted by International Survey Research found that the Japanese were least satisfied and the Swiss workers the most satisfied. Specifically, in response to the question “Taking everything into account, how satisfied are you with your company as an employer?” the following results were obtained. In Switzerland 82 percent of the workers were satisfied, in Canada 73 percent, in Mexico 72 percent, in Germany 66 percent, in the Unites States 65 percent, in the United Kingdom 63 percent, and in Japan only 44 percent.

Moreover, only 33 percent of Japanese workers felt that their company was managed well. Among the respondents, 60 percent felt that they were not fairly appraised; only 37 percent felt that their pay was fair.

The often admired disciplined Japanese work force appears to think that their contributions to Japan's economic success have not been sufficiently recognized and rewarded, as shown by the low satisfaction of its workers.

Closely related to lifelong employment is the seniority system, which provides privileges for older employees who have been with the enterprise for a long time. But there are indications that this system may be superseded by a more open approach that provides opportunities for advancement for young people. For example,the relatively new Sony Corporation has team leaders (a point is made of not calling them supervisors) who are often young women 18 or 19 years of age. There is practically no age difference between these leaders and the operators they lead.

**Decision making in Japan**

The managerial practice of decision making in Japan is also considerably different from that in the United States. It is built on the concept that changes and new ideas should come primarily from below. Thus, lower-level employees prepare proposals for higher-level personnel. Supervisors, rather than simply accepting or rejecting proposals,tactfully question them, make suggestions, and encourage subordinates. If necessary, proposals are sent back to the initiator for more information. Still, in major decisions, top management retains its power.

Japanese management then,uses decision making by consensus to deal with everyday problems. Lower-level employees initiate an idea and submit it to the next higher level, until it reaches the desk of the top executive. If the proposal is approved, it is returned to the initiator for implementation.

**Theory Z**

In **Theory Z,** selected Japanese managerial practices are adapted to the environment of the Unites States. This approach is practiced by companies such as IBM, Hewlett-Packard, and the diversified retail company Dayton-Hudson. One of the characteristics of Type Z organization, as suggested by Professor William Ouchi, is an emphasis on the interpersonal skills needed for group interaction. Yet, despite the emphasis on group decision making, responsibility remains with the individual (which is quite different from the Japanese practice, which emphasizes collective responsibility). There is also an emphasis on informal and democratic relationship based on trust. Yet the hierarchical structure remains intact, as illustrated by IBM, where not only goals but also authority, rules, and discipline guide corporate behavior.

**Germany: Authority and Codetermination**

In the past, and to a lesser extent today, the German cultural environment favored reliance on authority in directing the work force, although it was often benevolent authoritarianism (managerial function of leading). Even today, while managers may show concern for subordinates, they also expect obedience. In 1951' a law was passed that provided for **codetermination**, which requires labor membership in the supervisory board and the executive committee of certain large corporations. Furthermore, a labor director is elected as a member of the executive committee. This position is a difficult one. Labor directors supposedly must represent the interests of the employees and, at the same time, must make managerial decisions that are in the best interest of the enterprise

## 4.0 CONCLUSION

In this unit, we have seen that there certain factors that influence management styles of international managers in different parts of the world.

## 5.0 SUMMARY

Many factors account for the different management perspectives around the world. In Australia, managing is mostly influenced by the country's political and social values, achievement and risk taking, Italian managers on the other hand have a low tolerance for risks and group decision making. Management in Austria and Germany is influenced by effective leadership style by managers. Britain emphasized job security. The dominant managerial practice in Japan is group decision making and lifetime employment policy.

## 6.0 TUTOR MARKED ASSIGNMENT

1. What factors do you think account for the different management adopted by the various countries around the world?

2. Compare and contrast the Japanese and the British management styles.

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# UNIT 16 MANAGEMENT CHALLENGES IN A GLOBAL ENVIRONMENT

**CONTENT**



## 1.0 Introduction

The management functions of planning, organizing, leading and controlling is relevant to international managers just as it is to the domestic managers. However the international manager has additional responsibilities in these areas since he is dealing with a more diverse work area. International managers have to clearly decide on the future of their organizations by formulating objectives. They have to organize to implement their plans. They have to motivate those who work with them and finally they have to develop appropriate control mechanisms to ensure that plans are maintained. In this unit, we shall discuss these management functions as they relate to international managers.

## 2.0 OBJECTIVES

After reading this unit you should be able to discuss

. Planning in an international environment

. Organizing in an international environment

. Leading in an international environment

. Controlling in an international environment

## 3.0 MAIN CONTENT

**Management processes in a Global environment**

### 3.1Planning in a Global environment

Planning in a global environment entails the same process just as in a domestic environment. However the international manager must have a broad based understanding of both environmental issues and competitive issues applicable to its organization. To plan successfully, the international manager needs to understand both the local and international market conditions that will affect its operations. Managers while planning in an international environment need a great deal of information to function effectively. They need to understand what markets are growing or shrinking, what the local and foreign competitors are doing in each market. Critical issues to contend with while planning include understanding environmental circumstances, the role of goals and planning in a global organization, and how decision making affects the global organization.

### 3.2 Organizing in a Global Environment

Managers in international business must also attend to various organizing issues. For example, General Electric has operations scattered around the globe. The firm has made the decision to give local managers a great deal of responsibility for how they run their business. In contrast, many Japanese firms give managers to their foreign operations relatively little responsibility. As a result, those managers must frequently travel back to Japan to present problems or get decisions approved. Managers in an international business must address the basic issues of organization structure and design , managing change, and dealing with human resources. We address the special issues of organizing the international organization in Chapters 11 through 14

### 3.3 Leading in a Global Environment

We noted earlier some of the cultural factors that affect international organizations. Individual managers must be prepared to deal with these and other factors as they interact with people from different cultural backgrounds. Supervising a group of five managers, each of whom is from a different state in the United States, is likely to be much simpler than supervising a group of five managers, each of whom is from different culture. Managers must understand how cultural factors affect individuals, how motivational processes vary across cultures, the role of leadership in different cultures, how communication varies across cultures, and the4 nature of interpersonal ang group processes in different cultures.

**3.4 Controlling in a Global Environment**

Finally, managers in international organizations must also be concerned with control. Distance, time zone differences, and cultural factors all play a role in control. For example, in some cultures close supervision is seen as being appropriate and in other cultures it is not. Likewise, executives in the United States and Japan may find it difficult to communicate vital information to one another because of the time zones differences. Basic control issues for the international manager revolve around operations management, productivity, quality, technology, and information systems.

## 4.O CONCLUSION

The management process of planning, organizing, leading and controlling is important to the international manager as it is to the local managers. The difference is that the international manager has more challenges in that he faces a plural environment.

## 5.0SUMMARY

In the international environment, planning which is scanning the environment for threats and opportunities covers worldwide markets. Organizing takes the form of global structure. Organizations have a worldwide labor pool to recruit its manpower. Leadership is influenced by many different cultures and controlling entails many different requirements.

## 6.0TUTOR MARKED ASSIGNMENT

Discuss management functions in an international environment.

## 7.0 REFERENCES/FURTHER READING


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UNIT 17, VALUE SYSTEMS

**CONTENT**



## 1.0 INTRODUCTION

Organization has value which represents what it believes in, and is out to achieve. As part of its culture, shared value influences the way an organization operates and how employees behave. In this unit we shall discuss the importance of the value system and how this affects the employees, managers and the overall management of an organization.

## 2.0 OBJECTIVES

After reading this section, you should be able to explain

. The meaning of values

. Values Based Management,

.Purposes of shared values

. Developing shared values

## 3.0 MAIN CONTENT

### 3,1 Meaning of values

Values are enduring beliefs that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence. This definition was proposed by Rokeach, an early scholar of human values. Values give us a sense of right and wrong, good and bad. Our discussion of values here will be concentrated on business based values.

Businesses have shown increasing interest in values over recent years. This interest goes along with the emphasis on ethics in organizations. Because values are general beliefs about right and wrong, they form the basis for ethical behavior. We can distinguished two types of values, instrumental and terminal values. Instrumental values reflect the means to achieve goals; that is, they represent the acceptable behaviors to be used in achieving some end state. Terminal values on the other hand represent the goals to be achieved or the end states of existence. Terminal and instrumental values work in concert to provide individuals with goals to strive for and accepted ways to achieve the goals.

### 3.2 values based management

Values based management is an approach to managing in which managers establish, promote, and practice an organization's shared values. An organization's shared values are what the organization believes in and stands to achieve. It is the reasons for its existence. The shared organizational values form the organization's culture and influence the way the organization operates and how employees behave. For instance, Patagonia, a maker of outdoor sports clothing and gear, passionately pursues environmental preservation. Its strong environmental commitment influences employees' work actions and decisions in areas from product design to marketing to shipping. In addition, Paragonia gives 10% of its profit to support environmental causes and actively seeks to educate its customers and suppliers about environmental issues. The company lives and practices its values. For any company that believes in and practices values-based management, the shared corporate values serve many purposes.

### 3.3 Purposes of Shared Values

The values that organizational members share serve at least four main purposes. The first purpose of shared values is that they act as guideposts for managerial decisions and actions. For instance, at Tom's of Maine, a maker of all natural personal care products, the statement of belief guides managers as they plan, organize, lead, and control organizational activities. One of the company's eight beliefs states that "We belief that people bring different gifts and perspectives to the team and a strong team is founded on a variety of gifts". This statement expresses to managers the value of diversity-diversity of opinions, diversity of abilities- and serves as a guide for managing teams of people. Another of the company's beliefs states that "we belief in products that are safe, effective, and made of natural ingredients". Again think how this statement would influence and guide company managers as they do their jobs.

Another purpose of shared values is the impact they have on shaping employee behavior and communicating what the organization expects of its members. For example, employees at Herman Miller, which manufactures office, residential, and health care furniture, practice company values as they design, manufacture, and ship furniture around the word. What are those company values? The company values innovation and uncompromising quality, participative management, and environmental stewardship.

Shared corporate values also influence marketing efforts. For example, Avon Products Inc. a company in the US is committed to educating women about breast cancer. Its support for this program came about after the company asked women what their number one health concern was and breast cancer was the answer. How does Avon's commitment to women's health influence its marketing efforts? The company's global sales force of more than half a million individuals educates women about the disease by bringing brochures on their sales visits. The director of the breast cancer awareness crusade says, "All of the interaction that happen with an Avon rep on something as important as breast cancer should improve customer relations and make for easier sales". Avon has found a way to link its business to an important social concern and improve its marketing efforts all at same time.

Finally, shared values are a way to build team spirit in organization. When employees embrace the stated corporate values, they develop a deeper personal commitment to their work and feel obligated to take responsibility for their actions. Because the shared values influence the way work is done, employees become more enthusiastic about working together as a team to support values they believe in. At companies such as Tom’s of Maine, Avon, Herman Miller, and indeed numerous others, employees know what is expected of them on the job. They use the shared corporate values to shape the way they work. The question is how do organizations develop a set of shared values? This takes us to our next level of discussion,

### 3.4 Developing Shared values

It is not easy to develop and entrench shared corporate values. The process involves a commitment by everyone in the organization. It requires team work and defining the company’s mission and objectives and strategies. At Tom’s of Maine, the process involved everyone in the company. All the employees, working in groups of four to six, took a hard look at defining ‘who are we” and “what are we about”. But the commitment by Tom’s employees to developing shared values did not just stop there. They realized that those shared values actually mattered. They began to understand that they were part of a unique corporate culture in which values shaped the business strategy.

Companies that live and practice values-based management have accepted a broad perspective regarding their commitment to being socially responsible and socially responsive. One value in particular that many managers are beginning to recognize as important has to do with the environmental responsibility of the organization and individuals.

## 4.0 CONCLUSIONS

Values are important to the study of organizations because they the foundation for understanding people’s attitudes and motivation. Values generally influenced attitudes and behavior. At individual levels, values represent things that are important to person. At organizational level, values represent and shape what an organization is out to achieve.

## 5.0 SUMMARY

Values represent what an individual or organization cherished and is out to achieve. They contain a judgmental element in that they carry an individual’s ideas as what is right, good, or desirable. Two types of values can be identified; these are terminal values which refer to desirable end – states. These are the goals that a person or an organization would always want to pursue and achieved. On the other hand, instrumental values reflect the means to achieve goals. Values based management is an approach to managing in which managers establish, promote, and practice an organization’s shared values.

6.0 TUTOR BASED QUESTION

Discuss the importance of values to an organization.

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## UNIT 18 ORGANIZATIONAL LANGUAGE

**CONTENT**

1.0 Introduction

2.0 Objectives

3.0 Main content

3.1 Meaning of Value based management

3.2 Purpose of Shared values

3.3 Developing shared values

4.0 Conclusion

5.0 Summary

6.0 Tutor marked assignment

7.0 References/further reading

## 1.0 INTRODUCTION

Language is an important element in communicating messages in organizations. Language is increasingly becoming important in organizations because of the multinational nature of many organizations. In this unit, we shall discuss language as an important tool in communicating values in organizations.

## 2.0 OBJECTIVES

After reading this unit, you should be able to explain

- The meaning of language
- The use of language in organizations
- Language and international business
- Values and organizational language

## 3.0 MAINCONTENT

### 3.1 The meaning of language

Language is the words, their pronunciations, and the methods of combining them used by a community of people, (Nelson and Quick 2003). Language is a central element in communication. It may pose a barrier if its use obscures meaning and distorts intent. There is an aspect of language called paralanguage which consists of variations in speech, such as pitch, loudness, tempo, tone, duration, laughing, and crying. People make attributions about the sender by deciphering paralanguage cues. A high pitched, breathy voice in a female may contribute to the stereotype of the "dump blonds". Rapid, loud speech may be taken as a sign of nervousness or anger. Interruptions such as "mmm" and "ah-hah" may be used to speed up the speaker so that the receiver can get in a few words. Clucking of the tongue or the "tsk-tsk" sound is used to shame someone. All these cues relate to how something is said.

Bye and large, the concept of organizational language encompasses not only spoken language but also how people dress, the office they occupy, the company cars they drive, and how they formally address one another. Like socialization practices, organizational language help us to understand more about an organization's cultural values. We shall discuss more about this later in this unit.

### 3.2 The use of language in an organization

In an organization, employees usually come from diverse backgrounds. Further, the grouping of employees into departments creates specialists who develop their own "buzzwords", or technical jargon. In large organizations, members are also frequently widely dispersed geographically-even operating in different countries and individuals in each locale will use terms and phrases that are unique to their area. The existence of vertical levels can also cause language problems. For instance, differences in meaning with regard to words such as incentives and quotas have been found at different levels in management. Top managers often speak about the need for incentives and quotas, yet these terms imply manipulation and create resentment among many lower managers.

The point is that although you and I probably speak a common language-English, our use of that language is far from being uniform, if we knew how each of us modified the language, communication difficulties would be minimized. The problem is that members in an organization usually don't know how those with whom they interact have modified the language. Senders tend to assume that the words and terms they use mean the same to the receiver as they do to them. This assumption is often incorrect.

### 3.3 **Language and International Business**

Although English is the international language of aviation, it is not the international language of business. Where the native language of supervisors and employees differ, the risk of barriers to communicate exists. However, increasing numbers of business men and women are bilingual or multilingual, for example, Honeywell CEO Michael Bonsignore's ability to speak four languages helps him conduct business around the world more fluently. Less obvious are subtle distinctions in dialect within the same language, which may cause confusion and miscommunication. For example, the word lift means an elevator in Great Britain and a ride in the United States. A direct gaze indictes honesty and forthrightness in the United States. This may not be true in other cultures. In Asian and African cultures it is considered good behavior to bow the head in deference to a superior rather than to look in the supervisor's eye.

In a different vein, language barriers are created across disciplines and professional boundaries by technical terminology. Acronyms may be very useful to those on the inside of a profession or discipline as means of shorthand communication. Technical terms can convey precise meaning between professionals. However, acronyms and technical terms may only serve to confuse, obscure, and derail any attempt at clear understanding for people unfamiliar with their meaning and usage. For example, clinical depression has meaning to a professional psychologist and may have a wide range of meaning to layperson. To avoid pitfalls in communication, it is advisable to use simple, direct, declarative language. Speak in brief sentences and use terms or words you have heard from your audience. As much as possible, speak in the language of the listener. Do not use jargon or technical language except with those who clearly understand it.

### 3.4 Values and Organizational language.

Let us consider how values are communicated in organizations. The cultural values of an organization are often evident in the stories, ceremonies, and language found in the organization. Organizations use several types of ceremonial rites to communicate cultural norms and values. The stories and language of an organization are also important media for communicating values. Stories about organizational heroes provide important clues about cultural values and norms. Such stories can reveal the kind of behaviors that the organization values and the kinds of practices it frowns upon.

Because language is the principal medium of communication in organizations, the characteristic names or phases a company uses to frame and describe events provide important clues about the norms and values.

## 4.0 CONCLUSION.

The importance of language in an organization cannot be overemphasized. Language is the main medium of communication. It helps us to understand the cultural values and norms in an organization.

## 5.0 SUMMARY

Language is the words, their pronunciations, and the methods of combining them used by a community of people. Language helps us in communication in organizations. In organization, we communicate with people from different cultures with the help of the appropriate language. Values, norms and other important issues are communicated with the use of language.

## 6.0 TUTOR MARKED QUESTION

Discuss the importance of language in an organization.

## 7.0 REFERENCES/FURTHER READING

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