COURSE GUIDE

PAD 410
GLOBALIZATION AND NATIONAL POLICIES

Course Team

Dr. Woleola Ekundayo (Course Writer)
Department of Business Administration
Faculty of Management Sciences
National Open University of Nigeria

Irene Boro (Course Writer)
Department of Financial Studies
Faculty of Management Sciences
National Open University of Nigeria

Prof. J.O. Onwe (Course Editor)
Department of Entrepreneurial Studies
Faculty of Management Sciences
National Open University of Nigeria

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

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

NATIONAL OPEN UNIVERSITY OF NIGERIA

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

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

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

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MAIN CONTENT

UNIT 1: GLOBALIZATION/INTERNATIONAL INSTITUTIONS

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1.0 INTRODUCTION

Today, organizations are conducting their businesses in the global environment. Many large firms have become multinationals doing business across national boundaries. Even small firms source their production inputs overseas. Overseas firms are producing their products here. The supply chain for many goods is global. United States firms, for instance, are acquiring firms abroad.

The vogue is to shift to international market and acquire as much market shares as possible.
Globalization goes with trade liberalization among nations and the removal of all trade barriers
So that commerce and industry can flourish smoothly around the world without hitches and impediments.

2.0 Objectives

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

* Demonstrate the understanding of global business
* Be knowledgeable about the New International Economic Order
* Understand Foreign Trade and Comparative Advantages

3.0 MAIN CONTENT

3.1 New International Economic Order

The demand for a New International Economic Order (NIEO) especially by developing nations goes back to the first session of the UNCTAD in 1964. The various resolutions adopted in the subsequent sessions of the UNCTAD contain a systematic account of the various elements of a NIEO. At the root of the call for a New International Economic Order lies the dissatisfaction of the Less Developed Countries (LDCs) with regard to trading, financial, technological and other policies pursued by the developed countries towards the LDCs. The developed nations have oppressed the LDCs, discriminated against them, drained their income and denied them access to advanced technology. Such policies have obstructed their development efforts, perpetuated inequalities in wealth and incomes and increased unemployment and poverty in them. There were three phenomena that gave an impetus to the demand for a new international economic order in the early 1970s. These were:

(a) A severe energy crisis
(b) The breakdown of the Bretton Woods System in 1973
(c) The disappointment with development aid which was much below the United Nations target of 0.7% of Gross Domestic Product (GDP) of developing countries.
(d) The formation of the Organization of Petroleum Exporting Countries (OPEC) in 1973 and its success in raising oil prices.
(e) The existence of high rates of inflation and unemployment in LDCs

Specific proposals for the NIEC were put forward at the Summit Conference of Non-Aligned Nations held in Algiers in September, 1973. The success of OPEC led the developing countries to call the Sixth Session of the UN General Assembly in April, 1974. This session adopted, without a vote, a declaration and a Programme of Action on the Establishment of New International Economic Order based on equity, sovereign equality, interdependence, common interest and cooperation among all states, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steady acceleration of economic and social development and peace and justice for present and future generations.

In December 1974, the UN General Assembly approved the Charter of Economic Rights and duties of States. These three Resolutions constitute the documents of the New International Economic Order.
The most important objectives of the New International Economic Order based on the proposals of the UN Resolutions include; international trade, technology transfer, regulation and control of the activities of multinational corporations, reformation of the international monetary system and special aid programme, and interdependence and cooperation.

3.1.1 International Trade

The New International Economic Order lays emphasis on a greater role of LDCs in international trade by adopting the following measures which aim at improving the terms of trade of LDCs and removing their chronic trade deficits; (i) establishment of LDC sovereignty over natural and especially mineral resources for export, (ii) promoting the processing of raw materials for exports, (iii) Increasing the relative prices of the exports of LDCs through integrated programme for commodities, compensatory financing, establishment of international buffer stocks and creation of a common fund to finance stocks, and formation of producers, associations, (iv) providing proper framework for establishing prices of raw materials and primary products so as to stabilize export income earnings, (v) indexation of LDC export prices to rising import prices of manufactured exports of developed countries, (vi) increase in the production of manufactured goods, and (vii) improving access to markets in developed countries through progressive removal of tariff and non-tariff barriers and restrictive trade practices.

It is important to recognize that foreign trade is of great importance to both developing and developed nations of the world. Trading activities occur between nations because it brings about specialization, and specialization increases output. Because the United States can trade with other countries, it can specialize in the goods and services it produces well and cheaply. Then the U.S. can trade its goods for goods and services produced cheaply by other countries.

International differences in resource endowments, and in the relative quantity of various types of human and non-human resources, are important bases for specialization. Consider countries with lots of fertile soil, little capital, and much unskilled labour.They are likely to find it advantageous to produce agricultural goods while countries with poor soil, much capital, and highly skilled labour will probably do better to produce capital intensive, high-technology goods.

3.1.2 Technology Transfer

The proposals of the New International Economic Order stress the establishment of mechanism for the transfer of technology to LDCs based on the needs and conditions prevalent in them. In this context, particular emphasis is on the (i) establishment of a legally binding international code regulating technology transfers, (ii) establishment of fair terms and prices for the licensing and sale of technology, (iii) expansion of assistance to LDCs in research and development of technologies and in the creation of indigenous technolo9gy, and (iv) adoption of commercial practices governing transfer of technology to the requirements of LDCs.

3.2 Regulation and Control of the Activities of Multinational Corporations (MNCs)

The New International Economic Order declaration also emphasizes the formulation, adoption and implementation of an international code of conduct for multinational or transnational corporations based on the following criteria; (i) to regulate their activities in host countries so as to remove restrictive business practices in LDCs, (ii) to bring about assistance, transfer or technology and management skills to LDCs. on equitable and favourable terms, (iii) to regulate the repatriation of their profits, (iv) to promote reinvestment of their profits in LDCs.

3.2.1 Reformation of the International Monetary System and Special Aid Programme

The New International Economic Order declaration proposes to reform the international monetary system on the following lines; (i) elimination of instability in the international monetary system due to uncertainty of the exchange rates, (ii) maintenance of the real value of the currency reserves of LDCs as a result of inflation and exchange rate depreciation, (iii) full and effective participation by LDCs in the decisions of the IMF and the World Bank, (iv) attainment of the target of 0.7% of GNP of developed countries for development assistance to LDCs, (v) debt re-negotiation on a case-by-case basis with a view to concluding agreements on debt-cancellation, moratorium or rescheduling, (vi) deferred payment for all or parts of essential products, (vii) commodity assistance including food aid, on a grant basis without adversely affecting the exports of LDCs (viii) long term
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concessionary terms, (x) provision on more favourable terms of credit goods and technical assistance to accelerate the industrialization of LDCs, (xi) investment in industrial and development projects on favourable terms.

3.2.2 Interdependence and Cooperation

Above all, the New International Economic Order declaration lays emphasis on more efficient and equit6able management of interdependence of the world economy. It brings into sharp focus the realization that there is close interrelationship and interdependence between the prosperity of developed countries and the growth and development of LDCs. For this reason, there is need to create an external economic environment conducive to accelerated social and economic development of LDCs. Furthermore, it requires the strengthening of mutual economic, trade, financial and technical cooperation among LDCs mainly on preferential basis.

3.3 International Institutions using Indian economy as a case study

In our study of international institutions, we are going to use the Indian economy as a case study. We shall be looking at the objectives and achievements of Indian plans and how these plans affect the national and international institutions within the Indian economy.

3.3.1 History

Planning as an instrument of economic development in India goes back to
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programme of planned economic development of India. This pioneering work created keen interest in academic circles in the cult of planning. As a result, some more books appeared on the subject by other prominent writers in India.

In 1938, first attempt was made to evolve a national plan for India, when the National Planning Committee was set up under the Chairmanship of Pandit Nehru. The work of the committee was interrupted due to the Second World War and the political disturbance following the resignation of the Congress ministries. It was only in 1948 that the Committee could release a series of reports on Planning in India.

In the next few years, eight leading industrialists of Bombay became convinced of the need for planning and took the initiative of preparing a plan of economic development for India. It was published in January 1944 ▪• † …▪• ‡ –‘ „‡ ⍰⍰‘™⍰ ▪• –Š‡ òB‘⍰„▪› I̲Ž▪•™äó• ▪ sw-year plan envisaging an expenditure of 10,000 Rupees. It was aimed at doubling the per capita income and trebling the national income during this period. It proposed to increase agricultural output by 130 per cent, industrial output by 500 per cent and services by 200 per cent of the 1944 figures during fifteen years.

3.3.2 Objectives and Achievements of Plans

India embarked on the path of planned economic development on April 1, 1951. Since then, shye has gone through ten Five-Year Plans. A critical appraisal of the overall achievements and failures during this period of planning is attempted below:

Objectives: There are various objectives that run through one or the other plan. They are:

(1) To increase national income and per capita income
(2) To raise agricultural production
(3) To industrialize the economy
(4) To achieve balanced regional development
(5) To expand employment opportunities
(6) To reduce inequalities of income and wealth
(7) To remove poverty
(8) To achieve self-reliance

In a broad sense, these specific objectives can be grouped into four basic objectives; growth, modernization, self-reliance and social justice.

We critically evaluate the performance of Indian Plans in the light of the following objectives

(a) Growth

One of the basic objectives of planning in India has been rapid economic growth. This is measured by the overall growth rate of the economy in terms of real GDP. The overall growth rate of the economy 1950 _ 2006 in terms of GDP at factor cost at constant prices has been characterized by extreme variations from year to year. Consequently, the targets of growth rate fixed for various plans were not achieved except for the First, Fifth, Sixth, Seventh and Eight Five-Year Plans. In the First Plan, the growth rate of 3.7% per annum was achieved which was higher than the estimated growth rate of 21%. During the second plan, the actual growth rate was a little less than 4.2% as against the targeted growth rate of 4.5%. In the Third plan, the actual growth rate of 2.8% was much lower than the targeted rate of 5.6%. The Fourth Plan also showed a large decline in the actual growth rate which was 3.4% as against the estimated rate of 5.7%. But the Fifth Plan achieved a higher growth rate of 5% against the targeted rate of 4.4%. The Sixth Plan had set the target growth rate of 5.2% but achieved a higher growth rate of 5.5%. The Seventh Plan achieved the growth rate of 5.8% against the envisaged target of 5%. The Eight Plan achieved a growth rate of 6.8% as against the target of 5.6%. The Ninth Plan had the growth rate of 5.5% against the target rate of 6.5%, and the Tenth Plan 7.6% against the targeted of 8%. But except for the year 2002-2003, the growth rate was 8.6% for the remaining four years of the tenth plan.

(b) Modernization

Modernization ”‡ˆ‡”• –‘ ò▪ ˜▪”‹‡–› ‘ˆ •–”—…–—”▪Ž ▪• † ‹�•–‹——–‹z‘• ▪Ž …Š▪• ‰‡•
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of production, diversification of activities, and advancement of technology and institutional innovations have all been part of the drive to change a feudal and colonial Indian economy into a modern and independent entity.

National Income: The sectorial distribution of national income reflects the str45uctural transformation of the Indian economy. The composition of GDP shows significant changes over the period 1950-2006. In 1950-51, 59% of GDP came from the primary sector (agriculture) which dropped to 18.5% in 2006. This is a concomitant result of the development process whereby the primary sector gives place to the secondary sector (industry) and the tertiary sector (services) in the economy.

Agriculture: Modernization and structural changes in agriculture have played an important role in the process of planned development. The country has made giant strides in the production foodstuff especially grains, cash and horticultural crops to meet the consumption requirements of the growing population, the raw material needs of the expanding industry and for exports. The phenomenal increase in the output of food-grains by four times has been due to the spread of high-yielding varieties of inputs, extension of irrigation facilities and water management programmes, establishment of a system of support prices, procurement and public distribution, promotion of agricultural research, education and extension, and institutional arrangements to suit small and marginal farmers.

Industry: The main component in the drive for structural diversification has been towards modernization and diversification of industr5ies. Over the past 50 yearsIndia has achieved a broad-based industrial development. Apart from quantitative increase in the output of industrial products, the industrial structure has been widely diversified covering the entire range of consumer, intermediate and capital goods. Chemicals, engineering, transport, petro-chemicals, synthetics, electronics, etc. have made rapid strides. In most of the manufactured products, the country has achieved a large measure of self-reliance.

Social Services: Modernization is also reflected in the spread of social services. There has been a significant increase in development expenditure on social services whose share in GDP grew from 3% in 1950 to 28% in 2006. There has been a marked expansion of health services. The number of doctors, nurses and hospitals has increased substantially, and villages have been electrified. Drinking water has been supplied to many villages. There has been a spectacular spread of education in rural areas. The number of secondary schools, colleges, universities, medical and engineering institutes has multiplied manifold.

Self-Reliance: Self-_‡Ž‹▪• …‡ ‡▪• • ò▪ ”‡†—…–‹‘ ‹ –Š‡ †‡’‡†‡…‡ ‘ foreign aid, diversification of domestic production and a consequential reduction in imports for certain critical commodities and the promotion of exports to enable us to pay for imports from our own resources. A major constraint towards achieving the objective of self-reliance has been unfavourable balance of payments. The deficit in current account balance continues to increase till the end of the Seventh Plan. It started declining from the Eighth Plan.

4.0 CONCLUSION

The developed nations have oppressed the Less Developed countries(LDCs) and discriminated against them, drained their income and denied them access to advanced technology. Such policies have obstructed their development efforts, perpetuated inequalities in wealth and incomes and increased unemployment and poverty in them. The phenomena that gave impetus to the demand for a new international economic order in the early 1970s include: severe energy crisis, the breakdown of the Bretton Woods System, the disappointment with development aid which was much below the United Nations target of 0.7% of Gross Domestic Product (GDP) of developing countries.

5.0 SUMMARY

The vogue is to shift to international market and acquire as much market shares as possible.
Globalization goes with trade liberalization among nations and the removal of all trade barriers
So that commerce and industry can flourish smoothly around the world without hitches and hazards. International operations go with cultural differences which must serve international firms and businessmen for success in the international markets.

6.0 TUTOR-MARKED ASSIGNMENT

*What are the main issues that led to the demand for a New International Economic Order by developing countries?

*List the major factors that gave impetus to the demand for New International Economic Order.

*Discuss the advantages of international trade.

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UNIT 2: GLOBAL POWER AND WEALTH DISTRIBUTION

1.0 Introduction

2.0 Objectives

3.0 Main Content

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assessment

7.0 References/Further Readings

1.0 INTRODUCTION

Since the mid 1980s, Politics throughout the world has been rocked by dynamic and unpredictable developments. The most visible changes were set in motion from bipolar politics into uni-polar diplomacy, and revolutions of 1989 in central and Eastern Europe that led to the disintegration of much of the communist world. This also influenced economic diplomacy and wealth distribution across the globe. By the end of 1991, the soviet, once a formable superpower, had collapsed into fifteen troubles republics, including a much humbled Russia (William A. Joseph 2007).

Post-cold war political and economic changes and transformation of the global balance of power have produced new forms of international cooperation and competition _ a new source of international tension and violence and new method of wealth distribution across the globe. The grime but predictable bipolar world of superpower rivalry between United States and Soviet Union, new Russia reinforced by NATO and Warsaw treaty organizational (Warsaw Pact) alliances has been replaced by the uncertainties of more fragmented map of global power.

These international changes have had far _ reaching effects on economic redistribution of wealth on countries of Asia, Africa and the Batin America. The issues of debt rescheduling and conciliation, technological transfers, and other means of wealth redistribution have created problem and removed strategic leverage of economic empowerment on the less developed nations. The contemporary world politics, economic diplomacy has provided unique laboratory for the study of global powers and issues of wealth redistribution across nations. The instrument for wealth redistribution includes:

(a) Technological transfers
(b) Bilateral agreement
(c) Signing of economic pacts
(d) Regional economic means
(e) Gifts,
(f) The use of multination corporations.

The above represents instrument for redistribution among comity of nations today.

2.0 OBJECTIVES

The aim of this unit is to enable students evaluate the role of super powers or global powers in wealth distribution in modern state. Some of these objectives are as follows:-

(i) It depicts the interaction of states within the economic international order.

(ii) It also reveals the role of states and super powers in global economic management.

(iii) It enables students and readers to understand the role technological transfer and other instrument in wealth redistribution.

(iv) It shows that political economy and development is more conflicting that it reveals.

(v) It will enable students to know that, wealth distribution is based on the national interest of global powers, not merely on the interest of nation expecting development.

The above represents some of the objectives of this unit, but students are expected to study closely the contemporary political disturbances across the globe and issues of economic diplomacy and how it influenced diplomatic and economic relations.

3.0 MAIN CONTENT

3.1 Global Power and Wealth Distribution

There are many strategies in the hands of state in the global political economy, as regards wealth distribution in modern diplomacy. Emergence of globalization began as an attempt to examine the way in which states or global powers responds to and attempted to manage the process of globalization and wealth distribution. The instrument of competitive strategies, did not favour less developed nations. The role of less developed nations in the global political economy in wealth distribution is in decline, and globalization had become a mysterious, omnipotent and incontrollable force, somehow rendering wreathing in its wake powerless (Ronew Palan 2009).

In the word of Francis Balle (2009 p. 207) in technological and economic terms, the world is a village, nevertheless, the world remains a mechanism for cultural, economic and political difference. Under the combined effect of the globalization of the economy and distribution of wealth revolution, have led to Americanization or the balkanization of culture as regards wealth distribution has promoted forced standardization. This was also queried by Charles Ziagber (2007) great power are not the avatar of development but a new stage in resource allocation. The danger of the 21st century is not of a forced march towards Americanization, but rivalry between economic powers and the globalization of markets and distribution of economic resources.

The global power has attempted and still attempting to distribute wealth in the society. The wealth of nations is not evenly distributed. Some nations are rich in natural resources. Others are rich in both human and natural resources, but lacked technological expertise. The global powers like the USA, Britain, France, Russia, Germany have formed a cartel or grouping as regards use of wealth and how it is distributed across the globe. Most third world nations have resources, e.g. Nigeria has oil or crude oil but cannot exploit them because she depends on advanced nations to use its natural resources.

3.2 Instrument for Wealth Distribution

Although much of the wealth of nations naturally sited, but its distribution are centrally controlled. The wealth owners can hardly have effective control of its wealth because the global powers have signed agreements, given aids as way of controlling natural resources or wealth of less developed nations.

The use of Multinational Corporation. The global power have used and still using multinational corporation as a means of distributing wealth, because they have link with their home government to repatriate dividends and export both finished and raw material to anywhere deemed appropriate by the global powers.

We have experienced numerous conflicts and violence, as a result of the use of multinational corporations as engine of growth and for wealth distribution.

Another instrument for wealth distribution is through cartel and use of threat and loan demal to deal with less developed nations where natural resources are endowed. For example, the super power has used threat assassination and coup to deal with less developed nations to bow to their whims and caprices. David Allende of Chile was destooled because he refused USA and its allies control their natural resources.

Besides, the global powers also uses joint ventures, and technical exports as a way of distributing wealth to area where not located. The joint venture enables poor nations to be assisted in her wealth exploration and distribution. Most of the Arabia wealth is found in USA and its allied super power, because they use joint ventures to entice poor nations to inviting them.

Increase globalization. Another instrument for wealth distribution is through globalization where the world is a global village, where transaction is concluded through internet, e-market and so on. Globalization has provided ways for making wealth distribution easy. The super have used their technical known how to improve the distribution of wealth of nations.

Besides, the above, through the instrument of regional bodies. The great power has formed NATO, WARSAW, European, Unions a way of maximizing advantages in wealth utilization and distribution. Regional bodies have assisted in distribution wealth across the globe.

3.3 Problems of Global Power in Wealth Distribution

The place of global powers in wealth distribution has continued to generate confusion and conflicts among great power that have technological expertise andpower, than those nationswho possessed resources without technological advantage. Political instability, violence and war have resulted from wealth distribution in modern world diplomacy and economic relations.

One of these problems is the problem of financial insecurity experienced by the majority of developing countries. The problems are three factors, namely hasty and disorganized financial liberation, excessive debt and lack of capital flow into underdeveloped nations liberalization of financial markets without the slightest examining countries in transaction. IMF orders the liberalization of financial markets without evidence that stimulate growth and economic development in countries adopting it. This was the case of Nigeria and Russia (Neijib Mekache 2007).

An influx of capital into economic with an immature and insufficiently regulated financial system can do more harm than good. The influx and sudden withdrawal of capital in South East Asia and Latin America brought 1999 _ 1998 crisis and uprising in Arab world recently.

_–‹‡%oŽ‹–œ_trsr_ …Ž‡▪"Ž› ‡š'Ž▪‹‡†á òI– ‹• —ˆ▪‹" –' †‡• ▪• † –Š▪– developing countries with a scarcely functioning backin0g system should risk apenus up their market operation rules, it is bad economic decision because speculative capital whose elob and flow leaves chaos in its wake. The small developing country are like small boats, rapid liberalization of financial markets by IMF force them to take to sea in high wind before they are able to plug the Š'‡• ‹• –Š‡ „—ŽŽó reviewed from the above, the possibility of developing getting financial ship reck is high.

There is the need to free developing countries from the Anglo-Saxon financial model based on the free circulation of capital.

Another problem resulting from great power wealth distribution is increased debtedness of less developed countries that have natural resources, without adequate technical knowhow and expertise to distribute the wealth. Many nations have van into debts, which crippled their economy. G8 initiative adopted at the Gleneagles summit in June 2005 for the cancellation, in full, of the debt of countries benefiting from the programme for payments of transfer (PPT) with respect to the IMF. G8 initiative should be extended to non PPT countries with similar level of revenue and poverty. Many nations have suffered and are still suffering from debt they incurred due to wealth distribution.

Furthermore, political instability have came into the purview of nation for example have experienced and still experiencing violence, bomb blast due to resource distribution and power acquisition. Political hegemony remained the last resort to wealth distribution. The global power through IMF introduced privatization and commercial of public enterprise, the only access to wealth is through political office. Many rested interest, who could not reach corridor of power used violence to change things. The Nigerian state gradually bleeding slowly into death.

4.0 CONCLUSION

We attempted to look at global power and wealth distribution across the comity of nations. Global powers are super powers and their allies. The USA, Britain, France Russia. Other great powers, ‡‡”‰‹‰ ▪ˆ–‡” –Š‡ …‘Ž† ™▪” ‹…Ž—†‡á G‡”• ▪• ›á A•‹▪• _‹‰‡”•ï ▪• † other colonize which have reached their human and technological ‡„„• ▪• † ˆŽ‘™ä GŽ‘„▪Ž ’‘™‡”• †‡’‡† • ‘ –Š‡‹” ‹Ž‹–▪”› ‹‰Š–ï•á technological superiority and the use of loans, and other instruments to intimidate less developed nations with natural wealth. We have been that global power uses, globalization and financial institutions to get their ascendance as a resources and wealth distributor. They have formed economic blocks; use IMF as a tool, and multinational corporations as a tool to entrench themselves avatar of wealth distribution. The politics of wealth distribution as authoritative allocation of values rest in the hands of global powers. This has created pockets of resistance and violence on its wake.

5.0 In this unit, we examined the objective of unit, looked at global powers and the instrument they used the pursue wealth distribution. We also examined some of the problems inherent in wealth distribution based on the focus and Louis of global powers. This tendency has resulted into violence, financial crisis, indebtedness of third world nations, and lack of even development across the globe.

6.0 Tutor Marked Assignment

1. Which countries are regarded as global powers?
2. Identify instrument for wealth distribution?
3. What are the problems in wealth distribution?

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UNIT 3: MEANING AND NATURE OF RISK

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1.0 INTRODUCTION

Risk is inherent in all human activities be they business undertakings, engineering works, farming, hunting, and operations in self employed endeavours, etc. Above all, risk is associated with our lives. Therefore, there is the more reason why people, for instance, insure against grave happenstance which may jeopardize their existence, incapacitation, or infirmity. Accordingly, different people have different views regarding the perception of risk. The fundamental consideration is the implication of risk for the corporate existence of business undertakings because of their impact on the economy as a whole. Hence, the discussion in this initial study unit is on conception of risk.

2.0 OBJECTIVES

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

- explain the meaning of risk
- discuss the nature of risk
- differentiate between uncertainty and risk

3.0 MAIN CONTENT

3.1 MEANING OF RISK

There are many definitions of the term risk which are examined herein so that you can appreciate the nature of risk. An array of definitions is reviewed below towards establishing a framework for the discussion of risk.

According to Harrington (1999), the term risk has a variety of meaning in business and everyday life. At its most general level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Life is obviously very risky, even the short-term future is often highly uncertain. In probability and statistics, financial management, and investment management, risk is often used in a more specific sense to indicate possible variability in outcomes around some expected value.

In a similar vein, Kaye (2001) sees risk from the perspective of an event. Therefore, Kaye opines that risk will be looked at from the viewpoint of whether an incident is likely to occur. It is also necessary to consider how often such an incident could happen and how damaging the incident would be if and when it occurred.

Williams, Jr. and Heins (1985), in their own view, posit that risk is the variation in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero; therefore, the greater the variation in outcomes the greater the risk element that will occur.

In the perception of Greene and Triechman (1984) describe risk as uncertainly as to loss which poses a problem to individuals in nearly every walk of life. All human beings, regardless of their individual status, must face risk and develop ways to handle it.

For instance, if in business, a loss is certain to occur, the businessman may then plan to mitigate it in advance and treat as a definite cost to the business. Nevertheless, in the event of uncertainty about the occurrence of a loss, risk would come into play since uncertainty breeds calamity and consequential burden on the business and its fortunes.

Self Assessment Exercise 1

Explain the term risk.

3.2 NATURE OF RISK

Risk is regarded as naturally inherent in every human activity. And in business, risk is inherently treachery and therefore, despised by investors because of its grave consequences for the fortunes of any corporate entity. Paradoxically, risk is also appreciated by some financial analysts, managers and investors because the presence of risk in a business operation is indicative of the fact that the undertaking is profitable.

Hence, the higher the risk element in a particular venture, the higher will be the return. It implies that managers and investors regard risky venture as a profitable venture. For instance, petroleum business in either upstream or downstream sector is extremely risky but it is one business that is very profitable around the world. The risky nature of the business, therefore, does not dissuade investors from staking the funds in it.

The following deductions underline the nature of risk:

Risk varies in its possible occurrence and outcomes or consequences;
The occurrence of risk and its outcomes depend on chance;
Risk is characterized by uncertainty as to its occurrence and magnitude of loss; Risk refers to uncertainty because it is inherently linked to uncertainty or chance of a loss;
Risk has been described as the possibility that loss will be greater than is normal, expected, or usual.

Hence the nature of risk has informed the rationale for its mitigation because of its unpredictable occurrence inmost cases and the magnitude of the loss that do accompany it when it rears its ugly head.

You will appreciate the fact that the understanding of the nature of risk is essential towards preparing human beings and business for instituting measures for mitigating it or even precluding it from occurring.

Self Assessment Exercise 2

Outline the salient deductions that are inherent in the nature of risk.

3.3 UNCERTAINTY AND RISK

In business decisions the element of future is dicey in consideration. This is due to the fact that some future circumstances cannot be predicted with precision regardless of the fact that some devices are available for assessing future events.

Nevertheless, under condition of certainty, some events or their outcomes can be determined to some extent. This is possible with the aid of statistical analysis; using statistical deductions to forecast future events or outcomes of such events. For instance, events such as rainfall, sunshine, flood, drought, famine, thunderstorm, typhoon and tornado can be predicted.

On the other hand, under condition of uncertainty, it becomes difficult to predict the future events and the outcomes of happenstance. By implication, decision makers have difficulties in assigning some probabilities to the outcomes of some future events.

Difficulty in predicting future events under condition of uncertainty can arise out of absence of information or lack of knowledge concerning the possible outcomes to expect from such events. Essentially, therefore, it becomes difficult for the decision makers to obtain statistical information and or scientific devices with which to predict the future events and their outcomes with any degree of confidence.

It implies that under condition of uncertainty, the decision makers cannot determine or measure the future events or their outcomes because their probabilities are unknown or not available. And since the possible outcomes of the future events are difficult to predict by the decision makers, it will be very difficult to measure or forecast them with any degree of accuracy.

The above scenario is a common phenomenon confronting managers in their day-to- day managerial decisions. For example, a bank manager may not be able to predict the level of acceptability of a new electronic product or service by the banking public due to the fact that no similar product has been introduced to the public before.

Uncertainty when compared to the element of risk is a subjective occurrence. Therefore, it implies that different decision makers are not likely to come up with similar opinions on the outcomes of decisions taken under condition of uncertainty. Hence, it becomes very difficult to build up unanimously acceptable techniques for dealings with uncertainty.

Nevertheless, the decision makers who are operating under condition of uncertainty normally endeavour to produce some probability distribution of likely outcomes on the basis of their personal judgment regarding the situation under consideration.

For instance, any predication regarding the outcome of acceptance of a new electronic product being introduced by a bank, which is similar to those types being marketed by other banks, is bound to be subject. This is because analysts are likely to come up with varying views, which will be based on their personal judgment.

Self Assessment Exercise 3

Differentiate between condition of certainty and condition of uncertainty.

4.0 CONCLUSION

In this initial unit of the study material, you have observed that risk is embedded in uncertainly in terms of loss to individuals and businesses. Businesses and human beings normally plan in advance to mitigate risk and will be treat as a cost. In the event of uncertainty about the occurrence of a loss, risk would come into play since uncertainty breeds calamity and consequential burden on the business and its fortunes. The condition of uncertainty implies that the decision makers cannot determine or measure the future events or their outcomes because their probabilities are unknown. Therefore, the decision makers who are operating under condition uncertainty normally produce some probability distribution of likely outcomes on the basis of their personal judgment regarding the situation under consideration.

5.0 SUMMARY

In this study unit, topics covered include the following:

- Meaning of Risk
- Nature of Risk
- Uncertainty and Risk

In the next study unit, you will be taken through the discussion on different types of risk which confront the business entities.

6.0 TUTOR _ MARKED ASSIGNMENT

Explain the term risk. What are the deductions that can be made regarding the nature of risk?

Solution to Self Assessment Exercises

SAE 1:
Risk refers to any situation where there is uncertainty or variability about the outcome of an event or decision. Risk involves loss and cost to individuals and business entities. In probability and statistics, financial management, and investment management, risk is often used in a more specific sense to imply possible variability in outcomes around some expected value.

SAE 2:
The salient deductions that underscore the nature of risk are:

- Risk varies in its possible occurrence and outcomes or consequences;
- The occurrence of risk and its outcomes depend on chance;
- Risk is characterized by uncertainty as to its occurrence and magnitude of loss; Risk refers to uncertainty because it is inherently linked to uncertainty or chance of a loss;
- Risk has been described as the possibility that loss will be greater than is normal, expected, or usual.

SAE 3:

Under condition of certainty, some events or their outcomes can be determined with the use of statistical analysis by using statistical deductions to forecast the outcomes of future events. For instance, events such as rainfall, sunshine, flood, drought, famine, thunderstorm, typhoon and tornado can be predicted.

On the other hand, under condition of uncertainty, it becomes difficult to predict the future events and their outcomes. It implies that decision makers have difficulties in assigning some probabilities to the outcomes of some future events. Therefore, decision makers depend on their personal judgment for taking business decisions.

7.0 REFERENCES/FURTHER READINGS

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UNIT 4: TYPES OF RISK

CONTENT

1.0 INTRODUCTION

Business entities function in dynamic environment with forces which do affect their operations in varied and differing proportions. Therefore, they operate in an environment that presents various types of risks because their operations are exposed hazards and hiccups as a result of situational dictates. Some business risks are inherently associated with operations. Some other risks arise as a result of the interplay of forces and upheavals of the external environment. In this study unit, therefore, such various types of risk which business organizations have to contend with are discussed.

2.0 OBJECTIVES

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

- identify the different types of risk confronting a business
- mention and discuss the internal risks of a business
- list and explain the external risks of a business

3.0 MAIN CONTENT

3.1 TYPES OF RISK CONFRONTING BUSINESS

All businesses face risks regardless of its size of operations, location, types of products produced or services rendered to the public. It is instructive to note that unmitigated risks can spell enormous consequences such as collapse of operations, failure and financial losses.

Therefore, the understanding of such risks by entrepreneurs can help them determine the necessary measures to be adopted in protecting their businesses and investment generally.

Business risks range from internal risks to external risks. Some of these risks are systematic risk, unsystematic risk, business risk, liquidity risk, financial risk, exchange rate risk, political risk, market risk, strategic risk, operational risk and compliance risk.

3.2 EXTERNAL RISKS OF A BUSINESS

These risks are associated with the dictates of the external environment, which are beyond the control of the firm. These types of risk are as identified and discussed below.

1. Financial Risk

It is the type of risk which arises as a result of external obligations. It is associated with the possibility that the business may not have enough funds to meet its financial obligations.

Such obligations include debt repayments, dividend payments, payments of taxes, settlement of financial transactions. The risk also encompasses the possibility that external sources of finance may not be available when needed.

2. Systematic Risk

This is the type of risk that cannot be abridged or predicted in any approach. Therefore, it becomes almost impracticable to protect the business entity against it. Some examples of these risks are interest rate fluctuation, changes in government legislation, and environmental upheavals.

3. Speculative risk

This type of risk arises as a result of committing funds in high risk investment such as funds used to speculate on oil business and capital market investment.

In the case of capital market investment, some firms in the country took loans to invest in shares during the initial public offer. This was purely speculative in nature. When the bubble in the Nigerian capital market burst, the investments in shares were lost.

The contagious affect on the banking industry contributed to the collapse of some banks that bore the brunt of the speculative attitude of the investors. The so-called

marginal loans that were granted to such capital market speculators turned into toxic assets to the banks.

4. Exchange Rate Risk

This type of risk arises from the fluctuations in foreign exchange rates. This can affect investment in other countries and transactions on imports and exports.

The fluctuations in foreign exchange rate, particularly a constant rise in the value of other currencies compared with the value in currency of the home country cause for home industries. The situation would erode the value of the purchasing power of the firms when related to the payment to be made for foreign supplies for production.

In terms of oversea investment, in the event of exchange rate risk being high, the value of the home currency may be less than the foreign currency. This may erode a significant amount of earnings of the foreign investment.

5. Market Risk

This type of risk is associated with the price fluctuations or volatility in the market for a firmïs products or services. In the event of persistent fall in the market price for the firmïs products, the expected revenue would fall and the firm might not be in a position to meet its obligations in operations.

6. Political Risk

This type of risk involves the risk associated with investment of funds in another country where the political environment is unstable. The risk can crop up as a result of a major change in the political setup.

It implies that the political risk or country risk as the case may be, could devalue the investment and reduce its overall return. Hence, this type of risk is usually associated with emerging or developing countries that are characterized by unstable political or economic scenarios.

SELF ASSESSMENT EXERCISE 1

Mention and explain the various types of external risk.

3.3 INTERNAL RISKS OF A BUSINESS

These risks are associated with the internal intricacies of a firmïs operationsThese types of risk are as identified and discussed below.

1. Strategic Risk

This type of risk, according to The Institute of Risk Management, is said to be future oriented and can arise when:

a new competitor enters a firmïs industry;
two businesses in the industry merge to create a power house;
the firm faces decisions about creating new products;
the firm faces decisions about entering new markets; and
the firm is considering the location of a disaster recovery site in relation to the main centre of operations.

It is risky when the recovery site is too close to the main centre of operations due to the possibility of the two structures being consumed in an inferno. It is also problematic when the site is far away from the main centre of operations due to communication and logistic bottlenecks.

SELF ASSESSMENT EXERCISE 2

What are the circumstances that give rise to strategic risk in business?

2. Unsystematic Risk

This type of risk is inherent in or specific to the nature of the assets. In some cases, such risks can be eliminated or guided against through a process called diversification. Some examples of this type of risk are strikes by workers and changes in management decisions.

3. Liquidity Risk

This is the type of risk which may arise from the fact that the firm may find it difficult to generate enough quantum of funds with which to meet its short-term financial obligations.

The expected illiquidity position is associated with the use of obsolete items of operational equipment which may break down. Hence, the firm would not be able to compete with other firms in meeting market conditions.

4. Operational Risk

The operational risk is conceptualized as the risk of loss arising from failed processes, people and systems, as well as external events. In other words, operational risk refers to the possibility that transactions or processes can fail as a result of poor design, inadequately trained personnel and external disruptions.

Operational risk also incorporates the risk of frauds and the possibility that the business can fail to meet the contractual obligations of a transaction arising from operational hiccups.

5. Compliance Risk

This type of risk arises from the possibility that the firm might not comply with laws and regulations within the jurisdictions where it operates, which could spell some enormous costs and thereby affects its fortunes.

This type of risk can also arise as a result of the possibility that the firm might violate the obligations of a legally binding contract entered into in the course of business transactions. The consequences of such violation are in areas of court cases, costs of legal processes, seizure of operational equipment, etc.

6. Business Risk

This type of risk is inherent in the uncertainty of income caused by the nature of the firmïs business. The uncertainty in income generation can arise from problems associated with companyïs products, ownership structure, composition of the board, management quality and behaviour, and market position.

SELF ASSESSMENT EXERCISE 3

Mention and explain the various types of internal risk.

4.0 CONCLUSION

In this study unit, you have understood that there are both internal and external types of risk that the business entities have to contend with in the process of operations. The internal risks are under the control of the business because they can be effectively managed by the organization. On the other hand, as you have observed, the external risks are beyond the contemplation of the firms. Nevertheless, the firms will still have to plan for their mitigation.

5.0 SUMMARY

In this study unit, topics covered include the following:

Types of Risk Confronting Business
External Risks of a Business Internal
Risks of a Business

In the next study unit, you will be taken through the discussion on risk and business stakeholders.

6.0 TUTOR _ MARKED ASSIGNMENT

Enumerate and explain various types of risk confronting business entities.

Solution to Self Assessment Exercises

SAE 1:
The external risks of business are as follows:
i. Financial Risk
It is the type of risk which arises as a result of external obligations. It is associated with the possibility that the business may not have enough funds to meet its financial obligations.
ii. Systematic Risk
This is the type of risk that is almost impracticable to protect the business entity against it. Some examples of these risks are interest rate fluctuation, changes in government legislation, and environmental upheavals.
iii. Speculative risk
This type of risk arises as a result of committing funds in high risk investment such as funds used to speculate on oil business and capital market investment.
iv. Exchange Rate Risk
This type of risk arises from the fluctuations in foreign exchange rates. This can affect investment in other countries and transactions on imports and exports.
v. Market Risk
This type of risk is associated with the price fluctuations or volatility in the market for a firmïs products or services, which can affect the expected revenue.
vi. Political Risk
This type of risk involves the risk associated with investment of funds in another country where the political environment is unstable.

SAE 2:
The circumstances that give rise to strategic risk in business are as follows:

- a new competitor enters a firmïs industry;
- two businesses in the industry merge to create a power house;
- the firm faces decisions about creating new products;
- the firm faces decisions about entering new markets; and

the firm is considering the location of a disaster recovery site in relation to the main centre of operations.

SAE 3:

The internal risks of business are as follows:

i. Strategic Risk

It is a future oriented risk arising from decisions on creating new products, entering new markets, and location of a disaster recovery site in relation to the main centre of operations as well as emergence of mergers and new entry in the market.

ii. Unsystematic Risk

This type of risk is inherent in or specific to the nature of the assets, which can be eliminated or guided against through a process called diversification. Examples are strikes and changes in management decisions.

iii. Liquidity Risk

This is the type of risk which may arise from the fact that the firm may find it difficult to generate enough funds to meet its short-term financial obligations.

iv. Operational Risk

This is the risk of loss arising from failed processes, people and systems, as well as frauds, external events, etc.

v. Compliance Risk

This type of risk arises from the possibility that the firm might not comply with laws and regulations within the jurisdictions where it operates, which could spell some enormous costs and thereby affects its fortunes.

vi. Business Risk

This type of risk is inherent in the uncertainty of income caused by the nature of the firmïs business; from problems associated with companyïs products, ownership structure, composition of the board, management quality and behaviour, and market position.

7.0 REFERENCES/FURTHER READINGS

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UNIT 5: RISK AND BUSINESS STAKEHOLDERS

CONTENT

2.0 INTRODUCTION

Business organizations do not operate in vacuum. Therefore, they operate in a given environment. In fact business organizations are creatures of the environment. Such environment comprises stakeholders who have vested interest in the operations of various business undertakings. Hence, these stakeholders are interested in the risk affecting businesses and how business entities handle the issue of risk is of paramount consideration in their dealings with them. Therefore, in this study unit, we shall discuss the interest of business stakeholders in relation to the issue of business risk.

2.0 OBJECTIVES

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

- explain business stakeholders and risks
- mention and discuss outside stakeholders and risk
- identify and discuss inside stakeholders and risk

3.0 MAIN CONTENT

3.1 STAKEHOLDERS AND BUSINESS RISKS

The business stakeholders comprise the interested parties in the operations of any business entity. It is not only the owners or shareholders of a business entity that is interested in the fortunes of such business. There are other parties or stakeholders who have to partake in the business entityïs fortunes.

In the opinion of Kaye (2004), the stakeholders of a business entity comprise the people or organizations, which could be affected by a risk incident occurring in the organization itself. This is in consideration of the fact that risk has great potential to òthreaten the operations, assets and other responsibilitiesó of any business entity.

For instance, the Tsunami that occurs in Japan recently and tornado witnessed in the West cost of US in 2011 wrecked havoc on both human beings and business entities to the extent that some business ventures have been completely wiped out of existence. Hence, the implication is that all stakeholders of businesses in both countries have incurred monumental losses.

Stakeholders of a business entity are the management, employees, government, labour union, suppliers, customers, the media, insurance companies, regulators, investors, banks, capital market, and other business entities.

Self Assessment Exercise 1:

Explain the stakeholders of a business organization.

3.2 INSIDE STAKEHOLDERSAND RISK

There are some stakeholders who are insiders to the business organization. Such stakeholders from among those identified above are discussed hereunder.

1. The Shareholders

The shareholders of a corporate entity have vested interest in the company because of their investment. The board of directors of a company is normally constituted to repre the interest of the shareholders in the business. Therefore, the directors will be interested not only in the level of risk exposures of their company but also the measures put in place by the management to preclude and mitigate the operational risks of the business.

The best practice in corporate governance stipulates that the board of directors of a company should, as a matter of policy, have a risk committee that will be charged with the responsibility of overseeing the management of the risk exposure of their corporate entity.

Therefore, the board of directors as stakeholders in a business has the strategic responsibility in partly managing the risk exposure of the business so as to ensure profitable operations and survival of the entity. Such onerous role of the board is cr towards avoiding disruptions in the companyïs business operations which may arise from occurrence of risk.

The foregoing discussion attests to the fact that the shareholders are exposed to the risk of losing the funds they invest in a company if anything untoward happens to the business.

2. Management as Stakeholder

The major pre-occupation of any business entity is to maximize profit from its operations. Nevertheless, management recognizes the fact that such objective of maximization of profit can be jeopardized at the instance of occurrence of risk.

Therefore, management is interested in various risks which are inherent in business operations. The understanding of operational risks will prepare the management team in instituting appropriate measures to checkmate and mitigate known business risks such as those discussed in the initial unit of this study material.

The management team of any business organization cannot afford to neglect the issue of risk in operations. This is because business operations are prone to risks, which have been highlighted and discussed in the earlier study unit. For instance, the occurrence of risk such as fire outbreak in a factory can be accompanied by monumental loss of operational assets and consequence of stoppage of operations.

3. The Employees

The employees of a business entity have vested interest in the operations of the organization. Such interest is informed by their stake in the revenue of the organization because their salaries and allowances come from it.

The other areas of employeesï interest in the organization include their morale and pride, which are often reflected in the degree of their self motivation level of performance and productivity and above all, the quality of their work.

The employees of a corporate entity are also interested in their maintaining their jobs in order to sustain their personal and family lives, their self-esteem and regular receipt of their salaries and allowances. The occurrence of operational loss arising out of risk can jeopardize the companyïs operations and by extension the payment of employeesï salaries and allowances.

Hence, the employees would be interested in appropriate management of business operational risks that can guarantee a safe working environment, survival of the organization, enhanced operational fortunes, and organizational effectiveness.

4. Labour Union

The labour union which represents the collective interest of the workers in a business entity also have vested interest in the operations of the organization. The unionïs interest is informed by their stake in the healthy operations of the organization. This is because the workersï fate is dependent on the survival of the business.

The labour union in any corporate entity is normally pre-occupied first and foremost with the profitable operations of the entity. This operational scenario is needed to guarantee the workersï jobs. The occurrence of loss arising out of operational risk can jeopardize the compan›ïs operations, which will eventually impact negatively on the payment of employeesï salaries and allowances.

Therefore, the labour union would be interested appropriate management of business operational risks that can guarantee an ideal working condition, the survival of the organization, enhanced corporate performance, and organizational effectiveness.

5. The Suppliers

The suppliers of productive materials, in the case of a manufacturing outfit and commercial products in the case of merchandizing business, have stake in the business. This is because the operational fortunes of the business have impact on their patronage and payments for their supplies.

The suppliers will be interest in the nature of risks to which the businesses of their customers are exposed so as to influence their level of business dealings with them. This is because of the fact that any occurrence can impact negatively on the stake of the suppliers.

The suppliers to any organization will be concerned and depend on its survival, for doing business with it, in the absence of occurrence of crippling risks. The survival of the organization will encourage the suppliers to deliver and receive payment for the goods or services contracted.

Sometimes the loss of one or more large customers resulting from the occurrence of any of the business risks can destroy the business of a supplier of gods and service to such organizations. Therefore, the suppliers will be interested not only in the level of risk exposures of their customers but also the measures put in place to preclude and mitigate business risks.

6. The Distributors

The distributors of products of corporate organizations will be interested in the steady supplies of the products. Since there is no business that is insulated from operational risks, the distributors will be concerned about the nature of risks inherent in the operations of their suppliers.

Hence, the distributors will be interested not only in the level of risk exposures of their customers but also the measures put in place to preclude and mitigate business risks. This is necessary in order to avoid disruptions in their business operations which may arise from occurrence of risk to the operations of their suppliers.

Most business customers are free to change their sources of suppliers but it is easier said than done because of the protocol involved in switching to other organizations that have not been doing business with them before. Such protocols include calling for references from their bankers, signing of bonds for performance, and making available of qualified guarantors.

7. Industrial Customers

The industrial users of the products of a companyïs are major stakeholders in the business because they depend on the suppliers for their productive operations. The users as customers can be affected by any risk which may disrupt the suppliersï ‘perations.

Such occurrence of risks and consequently, the disruption of operations may affect their relationships since it will become difficult to fulfill the contractual obligations for suppliers and hence, such failure will make the confidence in the suppliers to be lost.

Therefore, the industrial customers will be interested not only in the level of risk exposures of their suppliersï operations but also the measures put in place to preclude and mitigate business risks. This is necessary in order to avoid disruptions to their manufacturing operations which may arise from occurrence of risk to the operations of their suppliers.

Self Assessment Exercise 2:

Identify the inside stakeholders of a business organization and show how they can be affected by risks in operations.

3.3 OUTSIDE STAKEHOLDERS AND RISK

There are some stakeholders who are outsiders to the business organization. Such stakeholders from among those identified above are discussed hereunder.

1. The Government

The government is interested in the overall economy and by implication, the productive units which include all business organizations are being monitored by the state apparatus. Therefore, government has vested interest in the operations of corporate bodies doing business within her territory.

First and foremost, the government is interested in the growth and development of the economy which can only be ignited and sustained by business entities. Above all, the industrialization efforts of the government is normally complimented and enhanced by business operations.

The business entities do contribute enormous quantum of funds to the coffer of the government through profit and income taxes, royalties, rents, commissions, surcharges, fines, and duties. In fact, most countries of the world depend on taxes and the charges being paid by business entities for executing projects in developing both economic and social infrastructure besides using such funds to discharge other numerous state obligations.

Therefore, government will be interested not only in the level of risk exposures of business entities operating within her economy and even those companies of the countryïs origin but operating abroad (multinational corporations). In addition, the government is also concerned about the measures put in place to preclude and mitigate operational risks of business entities.

The concern of the government about business risks and strategic measures to preclude and ameliorative such risk exposures is indispensable. Such posture of government which finds favour in policies and laws is crucial to forestall grave impact of occurrence of operational risk of business operations on the economy.

For instance, the recent oil leakage (occurrence of operational risk) from the offshore facility of the British Petroleum (BP) company along the East coast of the US caused monumental damage to the ecological environment, loss of fishing grounds by the natives and displacement of aquatic lives from the area affected by the leakage.

2. The Regulators

There are business and environment regulators whose actions are geared towards regulating the operations of the businesses to ensure that they conform with laid down best practices in their dealings and protection of the environment.

There are various regulators such as NAFDAC, SON, CPC, EFCC, Customs, and Immigration which have operational activities, in many different ways, which require them in taking a continuing interest in corporate entitiesï operations and dealings within the countryïs economy.

The failure on the partof business entities to satisfythe statutory and other requirements of these regulators can result in imposing fines, restricting operations or closing down the business altogether.

3. The Media

The media comprise print and electronic organizations such as local and international newspapers, television and radio outfits, popular and professional magazines, and the Internet.

These media organizations are always on the lookout to bring to the knowledge of the government and the general public any risk exposures of business entities and above all, reportage of risk occurrences, which may not be in the best interest of companies.

A publication by the print media or coverage of occurrence of operational risk such as the BP oil leakage in the US normally goes a long way to cast negative image about the organization. This is beside the fact that a large quantum of finance will be required to settle and clear such operational fallouts such as cleanup, compensation, payment of charges and sundry expenses for court cases in some instances.

4. The Investors.

The investors are those high networth individuals and companies who have surplus funds to invest with the intent of reaping financial benefits in the future.

Most investors are risk averse because they are not interested in losing their funds. In relation to investment in stock, investors would commit their funds in the shares of companies whose records of managing operational risks are favourable in terms of the measures which they put in place for precluding and mitigating risks.

Therefore, investors would not only be interested in the track record of operational profits based on critical fundamentals of business strength of the quoted companies. The investors will also be interested in the level of risk exposures of the operations of such companies before committing their funds in their shares.

Furthermore, in order not to lose their funds, investors do take appropriate steps to assess the measures put in place by quoted companies to preclude and mitigate their operational risks. This is necessary in order to avoid losing their funds as a result of consequential disruptions to the operations of such companies, which may arise from occurrence of risks.

5. The Banking Industry

Banking business is dependent on the healthy operations of other business particularly the corporate entities. Therefore, banks and other financial institutions will maintain an interest in the fortunes of those organizations to which they have provided funds.

Once banks perceive a particular industry is prone to greater risk such as petroleum industry (both upstream and downstream operations) the cost to be borne by such companies would be very high.

For instance, the BP Company lost a huge quantum of revenue from its operations in the oil spillage in North America as cited before. In addition, it has to spend huge amount of funds for the cleanup, compensation, and restoring its damaged drilling facility to normal operation.

The banks that have financial dealings with the company will, in one or the other, be affected as a result of the huge quantum of funds that was lost from the companyïs revenue besides funds expended for cleanup, compensation, and restoring its damaged drilling facility.

6. The Capital Market

The Securities and Exchange Commission and the Stock Exchange are in charge of regulating the operations of the capital market in the country. The quoted companies have their shares listed on the Exchange and therefore, they owe the Commission and the Stock Exchange some obligations in reporting any occurrence of risks to their operations in the course of a financial year.

Such reports can affect the prices of the companiesï stocks and therefore, both capital market authorities would be interested in the measures being put in place to preclude and mitigate their operational risks. This is necessary in order to avoid the loss of investorsï funds as a result of consequential disruptions to the operations of such companies, which may arise from occurrence of risks.

Self Assessment Exercise 3:

Identify the outside stakeholders of a business organization and show how they can be affected by risks in operations.

4.0 CONCLUSION

The analysis in this study unit, as you have understood, indicates that the business stakeholders are also concerned and affected by the risks which the businesses have to contemplate with in the process of their operations. For instance, the various stakeholders recognize that they can lose their stakes in the event that their business entities do not have in place mitigating measures with which to manage risks. Hence, they always have to be monitoring the behavior of the management in the handling of risks in order to be rest assured that their stakes are not jeopardized as a result of the occurrence of risks.

5.0 SUMMARY

In this study unit, topics covered include the following:

- Stakeholders and Business Risks
- Inside Stakeholders and Risk
- Outside Stakeholders and Risk

In the next study unit, you will be taken through the discussion on peopleës attitude to risk.

6.0 TUTOR _ MARKED ASSIGNMENT

Mention the various stakeholders of a business entity and show how they can be affected by risks in business operations.

Solution to Self Assessment Exercises
SAE 1:
The stakeholders of a business comprise the interested parties in the operations of any business entity. These are the people or organizations which could be affected by a risk incident occurring in the organization itself.

Stakeholders of a business include the management, employees, government, labour union, suppliers, customers, the media, insurance companies, regulators, investors, banks, capital market, and other business entities.

SAE 2:

The inside stakeholders of business entities are as follows:
i. The Shareholders
The shareholders of a corporate entity have vested interest in the company because of their investment. The shareholders are exposed to the risk of losing the funds they invest in a company if anything untoward happens to the business.
ii. Management as Stakeholder
The management team recognizes the fact that objective of profit maximization can be jeopardized at the instance of occurrence of risk. The occurrence of risk such as fire outbreak in a factory can be accompanied by monumental loss of operational assets and consequence of stoppage of operations.
iii. The Employees
The employees of a business entity have vested interest in the operations of the organization. Such interest is informed by their stake in the revenue of the organization because their salaries and allowances come from it.
iv. Labour Union
The labour union which represents the collective interest of the workers in a business entity also have vested interest in the operations of the organization. This is because the workersï fate is dependent on the survival of the business.
v. The Suppliers
The suppliers of productive materials, in the case of a manufacturing outfit and commercial products in the case of merchandizing business, have stake in the business. This is because the operational fortunes of the business have impact on their patronage and payments for their supplies.
vi. The Distributors
The distributors of products of corporate organizations will be interested in the steady supplies of the products. The occurrence of risks in operations of a manufacturer could disrupt their business operations regarding the inability of the suppliers to make goods available.

vii. Industrial Customers
The industrial users of the products of a companyïs are major stakeholders in the business because they depend on the suppliers for their productive operations. The users as customers can be affected by any risk which may disrupt the suppliersï ‘perations.

SAE 3:

The outside stakeholders of business are as follows:
i. The Government
Government has vested interest in the operations of corporate bodies doing business within her territory because of the economy. Such posture of government which finds favour in policies and laws is crucial to forestall grave impact of occurrence of operational risk of business operations on the economy.
ii. The Regulators
There are business and environment regulators whose actions are geared towards regulating the operations of the businesses to ensure that they conform with laid down best practices in their dealings and protection of the environment.
iii. The Media
The media organizations are always on the lookout to bring to the knowledge of the government and the general public any risk exposures of business entities and above all, reportage of risk occurrences, which may not be in the best interest of companies.
iv. The Investors.
The investors are those high networth individuals and companies who have surplus funds to invest with the intent of reaping financial benefits in the future. Therefore, they would avoid losing their funds as a result of consequential disruptions to the operations of such companies, which may arise from occurrence of risks.
v. The Banking Industry
Banking business is dependent on the healthy operations of other business particularly the corporate entities. Therefore, banks and other financial institutions will loose their funds in the event of risk occurring to the corporate entities which are beneficiaries of their loans.
vi. The Capital Market
The Securities and Exchange Commission and the Stock Exchange are in charge of regulating the operations of the capital market in the country. Both capital market authorities would be interested in the measures being put in place to preclude and mitigate corporate risks so as to avoid the loss of investorsï funds as a result of consequential disruptions to the operations of quoted.

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UNIT 6: PEOPLEï_ ATTITUDES TO RISK

CONTENT

1.0 INTRODUCTION

Human beings particularly investors and managers have different attitudes towards risk. These diverse postures towards risks by managers and investors alike are precipitated by the nature of risks, which involves their unpredictability generally, and the inherent consequences or outcomes therein whenever they occur. The diversity of attitudes of business minded people gives rise to various classes of people based on their peculiar attitudes to risks. The focus of this study unit, therefore, is on the discussion of such diverse attitudes to risk.

2.0 OBJECTIVES

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

- explain the objective and subjective elements of risk
- distinguish between risk and uncertainty
- differentiate between objective and subjective risks
- discuss the different attitudes to risk

3.0 MAIN CONTENT

3.1 OBJECTIVE AND SUBJECTIVE ELEMENTS OF RISK

Some events and losses inherent in them can be predicted. This is because such occurrences are common and therefore, can be predicted with certainty. Nevertheless, some other losses are associated with unexpected events and therefore, are not predictable.

For instance, the occurrence of fire outbreak which can consume all the facilities of a business entity cannotbe predicted accurately even though there abound some statistical records on their trends particularly for the dry season. Nevertheless, the fire outbreaks that occur during the rainy season defy explanations and prediction. Herein is the basis of variations in risk occurrence.

3.1.1 Objective Element of Risk

Risk is embedded in variation in the possible outcomes in a given scenario regarding a risk. Since the timing of the occurrence of risk is uncertain, uncertainty is often used synonymously with risk. Hence, whenever uncertainty is used in place of risk, it usually implies the objective uncertainty. Such is measurable or quantified because it is used when a measure of variation in occurrences of risk is intended.

A popular measure of variation is the standard deviation. This measure is helpful for use in predicting the expected variation from apparently identical situations which may precipitate different decisions. For example, a manager who is conservative and will always tends to play safe in business decision that many seem quite risk-free to other decision makers.

A condition of risk implies that the decision maker is confronted with a scenario in which the possible results of his decision are not totally predictable. Nevertheless, such outcomes will most likely fall within a possible range of outcomes. Hence, it implies that there could be more than one possible outcomes arising from the choice of an option.

Presumably, the decision maker is understood to know the probability of occurrence of each outcome of his decision. Nonetheless, the decision maker is confronted with the problem of estimating the mathematical probabilities of the occurrence. This problem implies that some errors of estimate or forecast are bound to be involved in the decision makerïs prediction.

Basically, there are statistical formulations for determining such errors and measuring them. In fact, the decision maker can make use of his past experience to determine the objective probability and relative frequency of the occurrence of various outcomes. Therefore, measurements could be determined with the support of past experience and available records.

For example, measurements can be determined on such occurrences as seasonal sales figures, cost of production, amount paid as sales commission, quantity of demand in a particular market, population in a segmented market, local authority fees in a geographical area, units of output in production of a product, number of customers for a particular product, etc.

Based on personal perspectives, objective risk which may actually be the same in two scenarios may be viewed very differently by decision makers who are assessing such a risk. Therefore, a decision makerïs attitude towards risk is equally very important besides the knowledge of the degree of objective risk which altogether to influence the personïs action.

There are some basic features of risk which influence individualïs reaction to risk situations that are fundamental ingredients in decision taking toward effective handling of risks.

3.1.2 Subjective Element of Risk

A particular type of event may be of a nature in which it ought to be possible to calculate both the probability and then the potential variation in its outcomes. Nevertheless, there exist some defects in the quality of data available to risk managers which prevent the calculation of reliable objective estimate of future loss probabilities.

The common problems or defects inherent in the calculation of future loss possibilities are as follows:

i) Inadequate large samples of data

This refers to the fact that the available details of past experience are based on only a small number of exposure units), and

ii) Dynamic nature of risk factors

The dynamic nature of risk factors implies that changes are constantly being observed in risk factors. This has cast doubts on the value of past experience as a lead to the future.

In the above circumstances decision makers have no alternative other than to draw on their experience and judgment with which to interpret loss trends to arrive at subjective probability estimates.

The implication is that such probability estimates would differ clearly from the fundamental true probabilities. Basically, it is because the estimatorïs judgment would be affected by his own attitude to uncertainty.

Hence, it implies that when risk cannot be measured objectively with some reasonable level of degree of accuracy, it would necessitate the use of individual judgment and attitudes in the process.

There appears that there is need for the use of personal judgment and attitudes to estimate the outcomes of risk event; then subjective element of risk will be manifested. Therefore, subjective risk is regarded, for obvious reasons, as the uncertainty inherent or apparent in an event as foreseen by the decision maker.

SELF ASSESSMENT EXERCISE 1

Distinguish between objective and subjective elements of risk.

3.2 INDIVIDUAL ATTITUDES TO RISK

The attitude to risk differs from one individual to another. The stance to risk is a function of individual position in the corporate and investment world. It means that such differing attitudes influence decision making in investment and commitment of corporate funds into projects by investors, financial analysts and managers.

Attitude to risk influences not only the subjective estimates of probability of occurrence of loss but it also affects such individualïs decisions in handling risk.

3.2.1 Risk Averters

The risk averters are those individuals who have the attitude of taking appropriate measure to avoid incurring risk or the outcomes of risky events. Therefore, to be risk averse implies that an individual is not willing to stake in excess of the expected return in exchange for some certainty about the future.

For instance, taking an insurance policy and paying the periodic insurance premium involves taking steps to forgo some prosperity in exchange for the insurance compan›ïs promise that the covered risk or expected losses will be paid to compensate the insured.

In insurance parlance, some people refer to this approach as an exchange of a certain loss of funds, which involves payment of premium for an uncertain future loss. The critical consideration in the process of the exchange is that the total quantum of premium being paid by the insured is larger than the average or expected loss. This is in view of the fact that insurer expenses and profit are included in the total premium to be paid by the insured.

3.2.2 Risk Seekers

In the opinion of Pritchett, S., et al (1996), an investor or manager who accepts risk at less than the expected average loss, perhaps even paying to add risk such as through gambling is a risk seeker.

One person may be very cautious and averse to taking chances in investment, whereas another may be highly optimistic regarding future uncertain outcomes regarding risky investment. The former in terms of attitude to risk is risk averse, who is likely to arrive at higher loss probability estimates while the latter who is less likely to arrive at higher loss probability estimates is the risk optimist.

Someone who is strongly averse to accepting even the smallest variation in outcomes from the expected may choose to insure. Nevertheless, an individual who is less strong averse to accepting even the smallest variation in outcomes from the future expectation of loss will be less risk averse individual may be prepared to carry the risk himself. This is the stance of a risk seeker.

3.2.3 Risk Neutrals

Pritchett, S. et al (1996) posit that a person willing only to pay the average loss as a premium would be considered risk neutral. It means that such individuals are not ready to assume risk and at the same time not prepared to stake more than necessary in preventing risk or transferring the loss to an insurance company.

The pertinent issue at this juncture is: what makes one person to be more risk averse than another? This issue borders on the realm of psychology or sociology, or anthropology. Nevertheless, it can be assumed that factors such as family and societal influences, genetics, religious and philosophical beliefs all play an important role.

SELF ASSESSMENT EXERCISE 2

Differentiate between risk aversion and risk neutral.

3.3 RELATIONSHIP BETWEENRISK AVERSION AND NCERTAINTY

To some extent, there is some ambiguity in the relationship between a personïs risk aversion and his uncertainty. A problem arises as a result of the imprecise way the twin terms aversion and uncertainty are commonly used. Nevertheless, in some respects, uncertainty could be affected by aversion.

For example, a decision maker might be so distrustful of risk in general that he/she would tend to disregard his/her own judgment regarding a particular risk might be driven higher by her/his aversion to risk.

In some other scenarios, it is possible to say that uncertainty influences aversion. This is because a person who is consistently exposed to an environment of seemingly random and unpredictable events such as typhoon or tornado might eventually develop a high level of aversion to risk. (Williams, Smith and Young, 1995:7).

Some writers have taken a different perspective in relating risk, risk aversion and uncertainty to one another. In their own view, William and Heins (1989) regard risk as consisting of objective and subjective components. According to them, objective risk refers to the measurable component of risk, while subjective risks reflect an individual reaction to or attitude towards risk.

On the basis of above approach, uncertainty becomes an aspect of subjective risk. Basically, there are other views and perhaps the best that can be discerned is that risk aversion and uncertainty are distinct concepts that are not fully independent of one another. (Williams, Smith and Young, 1995)

SELF ASSESSMENT EXERCISE 3
Briefly explain the relationship between risk aversion and uncertainty.

4.0 CONCLUSION

Some risk events and their losses can be predicted because such occurrences are common and therefore, can be predicted with certainty. However, some losses are associated with unexpected events and therefore, cannot be predicted. The attitude to risk differs from one individual to another. The different postures towards risk by individuals influence decision making in investment and commitment of corporate funds into projects by investors, financial analysts and managers. Hence, there are individuals who are risk averters while others are risk seekers and yet there are risk neutrals.

5.0 SUMMARY

In this study unit, topics covered include the following:

- Objective Element of Risk
- Subjective Element of Risk
- Individual Attitudes to Risk
- Relationship between Risk Aversion & Uncertainty

In the next unit, you will be taken through the discussion on costs associated with risk.

6.0 TUTOR-MARKED ASSIGNMENT

Explain these terms: Subject Risk; Objective Risk; Risk Aversion; and Risk Neutral.

Solution to Self Assessment Exercises

SAE 1:

Objective element of risk arises when the decision maker makes use of his past experience and available statistical records to determine the objective probability and relative frequency of the occurrence of various outcomes.

On the other hand, subjective element of risk implies that when risk cannot be measured objectively with some reasonable level of degree of accuracy, personal judgment and attitudes of decision maker will be used to estimate the outcomes of risk event

SAE 2:

Risk aversion implies that those individuals involved have the attitude of taking appropriate measure to avoid incurring risk or the outcomes of risky events. This presupposes that to be risk averse an individual is not willing to stake in excess of the expected return in exchange for some certainty about the future.

Risk neutrals refer to persons who are only willing to pay the average loss as a premium because such individuals are not ready to assume risk and at the same time not prepared to stake more than necessary in preventing risk or transferring the loss to an insurance company.

SAE 3:

The uncertainty element of risk influences aversion because a person who is consistently exposed to an environment characterized by seemingly random and unpredictable events such as typhoon or tornado might eventually develop a high level of aversion to risk.

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UNIT 7: COSTS ASSOCIATED WITH RISK

CONTENTS

1.0 INTRODUCTION

There are costs that embedded in all forms of risk. This is given the fact that the occurrence of any risk in the operations of any business entity portends some costs and losses which have to be borne by the organization. Some of these costs are inherent in the nature of the risk while some others are normally borne by the organizations in form of compensations and damages to the operational facilities of the organizations. Furthermore, the communities in which various organizations operate also bear some costs from the occurrence of risk in the activities of such organizations. In this study unit, therefore, the various costs that are associated with risks are identified and discussed.

2.0 OBJECTIVES

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

- mention costs associated with the nature of risk
- differentiate between private and social costs in risk
- identify various forms of losses inherent in risk

3.0 MAIN CONTENT

3.1 COSTS ASSOCIATED WITH RISK

Costs associated with risk refer to the obvious implications or consequences of occurrence of risk in organizational operations. The costs which are inherent in nature of risk and its sharing among organizational stakeholders are discussed below.

The various costs of risk are in various categories which are identified and discussed below.

3.1.1 Costs in Nature of Risk

The various costs inherent in the nature of risk consist of; risk handling costs, costs of losses that occur, and costs due to the existence of risk.

1. Risk Handling Costs
These handling costs in risk are in the areas such as follows:

- i) Costs involved in identifying, evaluating and treating risks
- ii) Insurance premiums
- iii) Charges for loss prevention devices
- iv) Fees for consultancy service
- v) Opportunity costs in terms of management and staff time spent on dealing with risks, which cannot be devoted to other activities.
- vi) The costs of avoiding a risk may be a loss of revenue derived from the particular activity involved.

2. Costs of Losses Arising from Risk
These costs arise as a result of the occurrence of risk in the organizational operation, and they are as follows:

i) Direct costs to a firm
These elements of cost in risk from industrial accidents can arise as a result of the following:

- Compensation payable to injured employees
- Damage to machinery, equipment and work in progress
- Loss of production
- Accident investigation expenses.

ii) Indirectcosts
These elements of cost in risk can arise as a result of the following:

- Other employees may either stop work for a short time or their work rate may slow down from occurrence of risk
- Decreased morale of workers from occurrence of risk
- Consequent drop in productivity and increase in spoilt materials from occurrence of risk
- Loss of future earnings from occurrence of risk.

3. Costs Attributable to the Existence of Risk
These elements of cost in risk do arise due to the following reasons:

- Welfare loss:- exposure to risk involves a welfare loss suffered by those exposed to risk, e.g., to a risk averter.

Externality of risk:- this refers to indirect costs which are borne by the rest of the society as a result of occurrence of risk.

In the event that the potential losses from occurrence of risk are so critical that the firm involved cannot produce its particular product, the consumers will be deprived of the satisfaction they would have derived from its consumption. In addition, other stakeholders would lose their stakes in the company.

SELF ASSESSMENT EXERCISE 1
Identify the forms of cost associated with losses arising from risk.

3.1.2 Private and Social Costs Inherent in Risk
The costs being shared among some individuals and groups in the society are private costs and social costs. Private costs are costs necessarily incurred from the occurrence of risk by the individual or firm which is affected by the outcomes of the risk. The community in which a company operates bears some costs from its operational activities; such burden constitutes the social costs.

For instance, in the process of production, the company can discharge untreated pollutants such as effluents into the community source of water supply coupled with smoke discharged into the air from the factory. Such pollution constitutes the private costs of the compan›ïs operations on the community.

In many countries, the company may be compelled by law to spend some money for cleanup of the above pollution in the community in addition to sundry expense on the pollution. Such costs will appear in the companyïs accounts as a part of its private costs. Hence, this involves obeying government regulations requiring that firms be financially responsible for all the consequences of their actions.

Both private and social costs may be inherent in many pure risks. A major fire incident may render a factory inoperative and as a result necessitate loss of employment by the workers besides the loss borne by some other stakeholders.

The company involved could be compelled to bear part of these social costs such as redundancy payments to workers and payment of compensation to some third parties for personal injury or damage to their property.

Furthermore, an explosion from a factory producing explosives may cause extensive damage to surrounding properties and injuries to members of the public. Another example is a leakage of contaminated sludge from a factory polluting the surrounding land and river depriving the community of their source of livelihood and water supply.

In the latter case above, the company would be compelled to expend some funds on cleanup of the land and the river of the deadly sludge. In both cases, payment of compensation would also be borne by the companies for the affected members of the public on for their injuries and damaged property and on the damaged farmlands respectively.

The above cases involve both private and social costs borne by the companies and the communities alike. In line with best practices in organizational operations, the companies in the absence of legal obligation to compensate injured third party, may feel morally duty-bound to offer some payment to the communities and individuals affected by the risk

SELF ASSESSMENT EXERCISE 2
Differentiate between private cost and social cost in relation to risk.

3.2 LOSSES ARISING FROM RISK

The undesirable outcome of risk involves an economic loss. This is because there are some benefits which are associated with some forms of risk.

The undesirable end result of risk signifies some loss of benefits which would have accrued from the use of a property. Such undesirable element of risk involves the decrease or disappearance of value.

The undesirable end of risk is usually in an unexpected or atleast relatively unpredictable manner. Since it is associated with risk, the outcome which is not desirable would be unpredicted in pecuniary magnitude as well as in the extent of its impact.

There are, however, some other losses which can be expected in nature. This is due to the fact that they are known to always occur. Examples are death which terminates a breadwinnerïs life, collateral damage resulting from conflict, depreciation of physical properties, etc.

The above examples of loss are capable of being predicted by decision makers fairly accurately. This is necessary because in the case of depreciation, the mere fact that it occurs to a capital asset prepares the minds of accountants to set aside some funds for their replacement.

In the case of death, the insurance company encourages people to insure their lives against such expected loss; in order to use the proceeds of such policy to cater for their dependents after its occurrence.

Nevertheless, as observed by Bickechaupt (1974), many losses cannot be predicted as a result of risk. Examples of such losses include:

- loss of property due to fire,
- loss of vehicle because of theft, and
- loss of valuables because of other perils.

Some other losses include:

- loss of income due to property destruction,
- loss of job due to personal perils of disability and illness,
- increased medical costs due to terminal illness, and
- loss of assets due to legal liability for losses affecting other persons.

SELF ASSESSMENT EXERCISE 3

Mention losses that are associated with occurrence of risk.

4.0 CONCLUSION

You have appreciated from the discussion in this study unit that risk has some cost implications for the operations of all organizations. Such costs include risk handling costs, costs of losses from risk, and costs attributable to the existence of risk. There are also private and social forms of costs inherent in occurrence of risk in operations of corporate entities. As you have understood from the discussion, some causes of risk include perils and hazards which do aggravate the occurrence of risks to both human beings and corporate entities. Some losses are also inherent in the occurrence of risk such as loss of property, loss of vehicle, loss of valuables, loss of income, loss of job, increased medical costs due to terminal illness, and loss of assets.

5.0 SUMMARY

In this study unit, topics covered include the following:

- Costs in Nature of Risk
- Private & Social Costs Inherent in Risk
- Losses Arising from Risk

In the next unit, you will be taken through the discussion on the causes of risk.

6.0 TUTOR-MARKED ASSIGNMENT

What are the various costs that are inherent in the nature of risk?

Solution to Self Assessment Exercises

SAE 1:

The various costs inherent in the nature of risk consist of the following
i) Risk handling costs:- these handling costs in risk are in the areas of costs involved in identifying, evaluating and treatingrisks; insurance premiums; charges for loss prevention devices; fees for consultancy service; opportunity costs in terms of management and staff time spent on dealing with risks, which cannot be devoted to other activities; and costs of avoiding a risk may be a loss of revenue derived from the particular activity involved.
ii) Costs of Losses arising from risk:- these costs occur from risk in organizational operation, which are: compensation payable to injured employees; damage to machinery, equipment and work in progress; loss of production; and accident investigation expenses (all regarded as direct costs); and stoppage of work; decreased morale of workers; consequent drop in productivity; increase in spoilt materials; and loss of future earnings from occurrence of risk (all as indirect costs).
iii) Costs Attributable to the Existence of Risk:- these elements of cost in risk arise from welfare loss suffered by those exposed to risk and externality of risk as indirect costs borne by the rest of the society as a result of occurrence of risk.

SAE 2:

Private costs are costs incurred from the occurrence of risk by the individual or firm which is affected by the outcomes of the risk. In a case of pollution of the environment, the company would be compelled to expend some funds on cleanup of the land and the river of the deadly sludge in addition to payments to the affected members of the public damaged property and farmlands.

Social cost in risk arises when the community in which a company operates bears some costs from its operational activities. An example is a leakage of contaminated sludge from a factory polluting the surrounding land and river depriving the community of their source of livelihood and water supply.

SAE 3:
Losses that are associated with occurrence of risk are as follows:

loss of property due to fire,

loss of vehicle because of theft, and
loss of valuables because of other perils. loss
of income due to property destruction,
loss of job due to personal perils of disability and illness,
increased medical costs due to terminal illness, and
loss of assets due to legal liability for losses affecting other persons.

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UNIT 8: CAUSES OF RISKS

CONTENTS

1.0 INTRODUCTION

All forms of risk do not just occur in the operations of any business entity. The occurrence of any risk is normally precipitated by some factors. Basically, risk takes place because of some factors which are associated with the nature of the operations, behavior of the workers, types of facilities in use in the business, the behavior of the parties dealing with the business, and above all, the upheavals of the external environment. Therefore, in this study unit, various causes of risk are identified and discussed.

2.0 OBJECTIVES

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

- mention and explain various causes of risk
- identify perils in business operations
- identify hazards in business operations
- mention uncertainties in business

3.0 MAIN CONTENT

3.1 SOME CAUSES OF RISK

There are some causes which can precipitate risk to take place. Such causes are inherent in the human nature, environmental conditions, and mechanical operations. Such causes of risk are identified and discussed below.

1. Inadequate Cash Flow

This arises when the management in the case of large entities or business owner in the case of small businesses does not monitor closely the expenses and accounting records of the operations. The result is that the flow of cash into the business will be jeopardi

The cash flow problem can also arise when customers are not purchasing products or patronizing the services of the business. The internal problem such as lack of planning ahead for contingencies can also precipitates cash flow deficiency. Therefore, it is advisable that a business owner should have three months of operating expenses kept away in savings with which to keep the operations afloat in lean periods.

2. Labour Unrest

Labour problem can precipitate risk in the operations of a business entity. In the event of labour, unrest which can emanate from disagreement between the management and labour, operations or production will suffer and therefore, the business will incur abnorma loss. The labour unrest can take the form of strike, stoppage, work to rule, and picketing, among others.

For instance, the British Airways has gone through a long period of labour unrest in recent years. The consequences of such labour unrest include loss of revenue, loss of market share, etc. In Nigeria, the labour unrest has always been led by the Nigeria Labour Congress (NLC) on issues concerning fuel price increase, national minimum wage, etc. The consequences include loss of valuable man hours, decrease in economic output, disruptions in socio-economic operations, etc.

3. Weak Internal Controls

When corporate entities do not have sound financial and accounting policies, the result is weak internal controls. This is because in the absence of such policies, there would be no meaningful checks and balances in the operations of the entities, and the result will be loss of revenue, weak cash flow, frauds, embezzlement, and other related problems.

4. Weak Corporate Governance

The absence of good governance in the operations of an entity is indicative of the fact the best practices of corporate governance issues are not being observed by the management, the board of directors and the chief executive officer of such organization. Therefore, in such situation, the normal operational protocol will be breached in the management of the funds of the organization. This results in fraudulent practices, embezzlements, bad debts, illiquidity, and financial distress, etc.

5. Investmentin Risky Ventures

Some funds of an organization may be invested in risky ventures such as speculative businesses to the extent that it becomes difficult to recover such funds in the event that the business goes awry. Examples are the loans advanced by the banks to the capital operators which invariably became lost to the vagaries of the speculative market. Such marginal loans became toxic assets in the books of the banks, which partly precipitated their weakness and financial distress.

6. Operations in Volatile Environment

Investments and operations in volatile environment can precipitate risk in the business. Investment and operations in politically unstable environment can lead to the loss of funds and at times the whole investment will be wiped off by socio-political uprising.

7. Poor Planning

Poor planning can lead to what is called one-dimensional thinking which can lead to the risk of sinking the operations of the business. For instance, lack of creative ways towards attracting customers, by the business owners, in the face of fierce competition can sink a business.

SELF ASSESSMENT EXERCISE 1

Mention and explain some causes of risk in business operations.

3.2 PERILS IN BUSINESSOPERATIONS

Peril is regarded as a major cause of risk. Forms of peril in relation to risk include the following:

- fire,
- automobile accidents,
- thefts,
- earthquakes,
- windstorms,
- flood, and
- illness, etc.

According to the law, perils are regarded as òacts of Godó in relation to those perils operating without human agency or intervention and not preventable by human foresight or care.

For example, fire outbreaks precipitated by lightening are often regarded as an act of God because human beings cannot cause lightings to take place. Other examples of acts of God include:

- storms,
- floods,
- typhoon,

tornados,
Tsunamis, and
other grave dictates of nature.

The above upheavals of nature indicate that such causes of risk come in various forms and the magnitude of their impact on business operations also vary considerably.

SELF ASSESSMENT EXERCISE 2

What are the forms of peril in relation to risk?

3.3 HAZARDSIN BUSINESS OPERATIONS

Hazards are the various contributing factors to the occurrence of perils. Generally, there are many separate hazards that are associated with any particular object or person. The sum total of hazards normally constitutes perils which can precipitate a particular risk.

In insurance parlance or business hazards are categorized into physicals hazards and moral hazards. These classes of hazards are discussed below.

i) PhysicalHazards:

Physical hazards refer to the tangible conditions or characteristics of the risk that influence the frequency and or severity of loss inherent in a risk.

These tangible or physical conditions of risk include considerations such as:

a) location,
b) structure,
c) construction,
d) occupancy,
e) security protection, and
f) exposure, etc.

Particularly, physical hazards include conditions such as:

a) waste paper piled under a staircase gasoline stored on the premises;
b) weak construction which may fail in a heavy wind;
c) unsafe brakes on a car;
d) holes in a sidewalk;
e) inadequate inventory checks in a store;
f) improper water drainage systems, etc.

The factors as highlighted above are individually capable of increasing the chances of a loss occurring in respect of a specific peril such as fire, wind, flood, theft, etc.

ii) MoralHazards:

Moral hazard is used in reference to those factors that have their origin embedded in mental attitudes of human aspects that may influence the outcome of risk.

This concerns hazards precipitated by:

dishonesty,
insanity,
carelessness,
indifference, etc.

The above list is by no means exhaustive. Hence, there are other similar human attitudes that are psychological in nature.

In drawing distinction between moral and morale, Pritchett et al (1996) observe that moral hazards involve dishonesty on the part of insured. In the context of insurance, moral hazards refer to conditions that encourage the insured to cause losses intentionally. Basically, moral hazards exist when a person can gain from the occurrence of a loss.

For example, an insured person who will be reimbursed for the cost of a new car due to the loss of an old one has the motivation of causing loss to the car. This fraudulent incentive on the part of the insured increases the probability of loss.

Morale hazards, in contrast, do not involve dishonestly on the part of the insured. To a certain extent, morale hazards are attitudes of carelessness and lack of concern that can increase the chance a loss will occur or increase the size of losses that do occur. (Pritchett et al, 1996).

For instance, poor housekeeping such as allowing waste papers to accumulate in the attic or basement of a building and the occupant is in the habit of careless cigarette smoking are examples of moral\morale hazards that increase the probability of loss by fire. Frequently, such lack of concern on the part of human beings occurs due to the fact that an insurer is available to pay for losses as there will be reimbursement to return the insured to his position.

Nevertheless, Pritchett et al pointed out that the distinction between moral and morale hazards is finicky, and usually their existence may lead to physical hazards. But they also remarked that hazards are critical characteristics to analyze because peopleïs ability to reduce their effect will reduce both overall costs and variability. Hence, Management of hazards can constitute a highly effective risk management tool.

SELF ASSESSMENT EXERCISE 3

What are the forms of hazards in relation to risk?

3.4 UNCERTAINTIES IN BUSINESS OPERATIONS

There are some uncertainties in the environment of all business entities that make their operations generally risky. Such threats to business operations are identified and discuss below.

1. Political

This involves issues such as guerilla war against the state, revolution, changes in government (through elections or coup dï etat), and political turmoil.

2. Government Policy

This refers to issues such as fiscal and monetary reforms, price controls, trade restrictions, nationalization, economic regulation, barriers to earnings repatriation, etc.

3. Macroeconomic

This is in areas such as inflationary trend, changes in relative prices, fluctuation in foreign exchange rates, and depreciation in terms of trade, etc.

4. Socio-cultural

This is in areas such as changing social concerns, social unrest, riots, demonstrations, terrorist attacks, militant movement, social dissension, etc.

5. Geographical

This is in areas such as variation in rainfall, change in climatic conditions, and problems of drought and desertification.

6. Input Market

This is in areas such as uncertainty in quality of supplies, shifts in market supply, changes in prices of supplies, inordinate behavior of suppliers, etc.

7. Product Market

This concerns changes in consumer tastes, availability of close substitutes, scarcity of complimentary goods, changes in prices of substitutes, etc.

8. Competition

This concerns rivalry among existing competitors, new entrants, technological uncertainty in relation to product innovations and process innovations.

9. Operations

This concerns input supply uncertainty, raw material shortage, quality changes, spare parts restrictions, machine failures, power failure, production disruptions, etc.

10. Liability

This concerns product liability, liability to the community as a result of pollution, liability to employees resulting from industrial accidents, liability to other people because of damages to their property, etc.

4.0 CONCLUSION

You have appreciated from the discussion in this study unit that risk can be caused by various factors. Some of these factors that can impact negatively on the operations of business entities are embedded in the activities of the companies while some other ones are associated with outside environment. There are factors which can aggravate the occurrence of risk in the operations of business entities, which as identified include perils and hazards that their activities are exposed to.

5.0 SUMMARY

In this study unit, topics covered include the following:

Some Causes of Risk
Perils in Business Operations Hazards
in Business Operations Uncertainties
in Business Operations

In the next unit, you will be taken through the discussion on the scope and benefits of risk management

6.0 TUTOR-MARKED ASSIGNMENT

Mention and explain the uncertainties in the environment of all business entities that make their operations generally risky.

Solution to Self Assessment Exercises

SAE 1:

Some causes of risk in business operations include the following.
i) Inadequate Cash Flow
This arises when the management or business owner does not monitor closely the expenses and accounting records of the operations.
ii) Labour Unrest
Labour problem can precipitate risk in the operations of a business entity. The labour unrest can take the form of strike, stoppage, work to rule, and picketing, among others. iii) Weak Internal Controls
When corporate entities do not have sound financial and accounting policies, the result is weak internal control that leads to loss of revenue, weak cash flow, frauds, embezzlement, and other related problems.
iv) Weak Corporate Governance
The absence of good governance in the operations of an entity leads to fraudulent practices, embezzlements, bad debts, illiquidity, and financial distress, etc.
v) Investment in Risky Ventures
Funds invested in risky ventures such as speculative business would become difficult to recover such funds in the event that the business goes awry.
vi) Operations in Volatile Environment
Investment and operations in politically unstable environment can lead to the loss of funds and at times the whole investment will be wiped off by socio-political uprising.
vii) Poor Planning
Poor planning can lead to what is called one-dimensional thinking which can lead to the risk of sinking the operations of the business.

SAE 2:
Forms of peril in relation to risk include the following:

- fire,
- automobile accidents,
- thefts,
- earthquakes,
- windstorms,
- flood, and
- illness, etc.

SAE 3:

Forms of hazards in relation to risk include the following:

- location,
- structure,
- construction,
- occupancy,
- security protection,
- exposure,
- dishonesty,
- insanity,
- carelessness,
- indifference.

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UNIT 9:GLOBALISATION AND BUSINESS RISKS

CONTENTS

1.0 INTRODUCTION

Businesses have always had to face global risks. Over the past few years, the concept of a systemic risk _ one which moves rapidly across countries and organisations _ has gripped public imagination. This report highlights where potential systemic risks exist and suggests how business can begin to manage them. globalisation has brought unprecedented benefits and opportunities for businesses, it has simultaneously changed and raised the risks that society and business face. Both the sources and the speed of transmission of risks have multiplied as a result of globalisation. This poses a range of new dangers: from vulnerabilities arising from the use of shared infrastructure platforms (such as energy, internet and transport), to greater threats from new and largely unquantified systemic shocks.

The new risks in a rapidly globalising world are the cascading failures caused by the collapse of some critical node in a network; both the physical damage which may be caused, as well as the rapid change in perceptions –Š▪– …▪• ‘˜‡”™Š‡Ž� •‘…‹‡–›ï• ▪• † „—•‹�‡••‡•ï …▪’▪…‹–› –‘ manage these risks.

The task for business is to become familiar with these risks across a wide range of sectors; to heighten sensitivity to activities or developments that constitute î•›•–‡�‹…ï –Š”‡▪–•á ▪• † to become more alert to the warning signs that a destabilising event may already be gathering momentum. With this greater understanding business will be better prepared to plan for and respond to these risks.

Unless businesses build resilience and prepare for large-scale shock events, effective risk prevention and mitigation will be impossible.

In this unit selected a number of risks which have changed significantly as a result of the past 20 years of rapid globalisation. These are illustrative of the way in which global integration has led to new forms of systemic risk. It is not intended to be an exhaustive list and there are a number of risks, not least those associated with the environment and climate change, which are not covered within this unit.

2.0 Objectives

At the end of this unit , students are to familiarize with concept and motive economics globalization, understand the difference types of firm/ organization risk in the world. It is expected to understand factors that aid globalization.

3.0 Main content

3.1 Economic and financial risk
3.2 Global pandemic risk
3.3 Infrastructure risk
3.4 Supply chain risk
3.5 Food security

3.6 Geo-political risk

3.1. Economic and financial risk

The success of globalisation in generating global growth and rising incomes led to a dangerous complacency in economic orthodoxy and a failure to recognise the warning signs.28 In a global environment characterized by rapidly opening markets, increasing connectivity, population expansion, and seemingly limitless computing power, government's and their ecomomic advisors felt confident that their policy recommendations would facilitate further growth.

Risks to business

Credit crunch

As banks and other financial institutions reduce the level of credit they are able to provide, there are several negative consequences for businesses:
_ _Š‡ ▪˜▪‹Ž▪„‹Ž‹–› ‘ˆ …”‡†‹– †”‹‡• —’ ▪• † –Š‹• ‰”‡▪–Ž› …‘▪•–”▪‹▪• ˆ‹”▪•ï ▪„‹Ž‹–‹‡• –‘ ‹▪˜‡•– ▪• †
to build up stocks. It is difficult for businesses to borrow money from financial institutions and therefore expand.
E Reduced credit adds to the pressures up and down the distribution chain. Suppliers are paid with increasing delays and customers are expected to pay more promptly. As th demands cannot be passed on, they in turn reduce the liquidity of suppliers of customers and can lead to a cascading liquidity crisis and bankruptcies.
_ _Š‡ ‰Ž‘„▪Ž‹•▪–‹‘ ‘ˆ ‹▪˜‡•–▪‡▪– ˆŽ‘™• Š▪• ’”‘˜‹†‡† ▪ welcome boost to certain markets in good times, but can equally compound the difficulties when this turns into an investment drought during a global crisis. At the end of 2008, foreign investors owned 41.5% of shares listed on the London Stock Exchange.35 In 2009, it was reported that the uncertainty created by the economic recession caused investors to pull £1trn out of the UK economy.36
As fewer listings from both domestic and international sources combined with lower investment volumes, the pressure on the City from the financial crisis was compounded.

Consumption

As credit dries up and the government tightens the central budget, consumer confidence falls and they begin to re-assess their spending priorities. Demand for consumer goods and services has stagnated over the last two to three years in Europe and North America, with robust growth in China and other rapidly growing emerging markets cushioning the blow for global companies. The crisis has had a highly differentiated impact on different retail sectors, with some able to withstand the pressures of the downturn better than others. The îˆ▪•– …▪•—▪Žï •‡‰▪‡▪– ‘ˆ –Š‡ ”‡•–▪—”▪▪• – business in the US saw double digit growth in 2009, even though the overall sales of restaurant businesses declined over the year.37 Lux goods have seen a sharp contraction. For example, global sales of luxury apparel, jewellery and fashion accessories were estimated by consulting firm Bain & Company to have declined by about 8% in 2009, due to the declines in the three mature markets (US, Japan and Europe), which still make up around 80% of global sale.

3.2. Global pandemic risk

As national borders open up to wider and more profitable exchange, we also expose ourselves to a wider range of pathogens and parasites. The fact that we have reduced natural diversity in order to expand our production and transport capacity multiplies the danger because diversity i• • ▪–—"‡ï• „‡•– †‡ˆ‡…‡ ▪‰▪‹•– †‹•‡▪•‡ä _▪•– ™‹†‡-scale and devastating pandemics have occurred before the rise of the emergence of globalised networks of trade, people and services. The full impact of a pandemic today is therefore unknown. A pandemic is a particular category of health threat: a highly infectious disease whose initial rate of transmission outpaces our capacity to detect, contain or inoculate against it, thereby endangering the human population as a whole. This threat typically begins as a communicable virus afflicting a specific animal population: pigs, chickens and cows are common culprits.

For such a virus to take on pandemic proportions, three conditions must be met. Firstly, the host animal population must be sufficiently large and concentrated to incubate and mutate progressively virulent strains.

Secondly, infected animals must have intensive human contact to afford the virus opportunities to develop efficient bridges across the species barrier. Thirdly, once the virus accomplishes that feat, it needs a fast and extensive transport mechanism to enable it t stay ahead of naturally- and artificially-occurring immunities in populations that are already infected.

Risks to business

Human resources

The impact of any pandemic on the human resources of a business will entirely depend on the nature of the pandemic and whether or not it targets people of a working age. However, a Department of Health publication advised businesses to assume, in the event of an influenza pandemic, that 50% of the workforce would require time off at some point fo anything between seven to ten working days.50 Employers will also need to consider their health and safety obligations during a pandemic, which may require additional costs in preventive measures.

Suppliers and services

A reduced global workforce will have knock-on effects on the provision of services and the delivery of essential supplies; this may be basic services such as energy supply, waste collection and food stocks.

Customers and markets

Illness, transport restrictions and physiological fear will also impact the choices customers make. Businesses who are used to a global market of customers may find their market has shrunk, and will therefore need to re-focus their business strategies on national or loca markets.

3.3. Infrastructure risk

Since our economies and our safety both depend upon their proper functioning, the health of our critical infrastructure (electricity, gas, oil, telecommunications, water, agriculture, heating, health, transportation, financial services security) merits careful, constant monitoring. The double-trend of swelling populations who demand services, plus the intensifying per capita use of these services as economies develop, puts all infrastructure under enormous strain. The global integration of societies has provided the engine for this rapid economic growth. At the same time, the development of global networks has meant that the efficiency and effectiveness of infrastructure is central to business and national competitiveness. The quality of infrastructure is a significan determinant of the ability of businesses and societies to benefit from globalisation, especially in the area of global trade.

Risks to business

Demand pressures

In rapidly developing parts of the world, supply of critical infrastructure resources is already failing to meet demand or is projected to do so soon. Energy supplies and transport are two networks that are particularly struggling to keep up with population growth, urbanization and growing global trade.

Globalisation has allowed businesses to expand, supplying goods and services on a global scale and to benefit from the ability to outsource key business functions, such as IT customer services to international locations. However, this global reach makes them more dependent on overseas infrastructure networks and consequently more vulnerable to the risks associated with failing infrastructure in both the developed and developing worlds.

Vulnerability of IT infrastructure

The invention of the public internet as a cheap and efficient form of networking revolutionised infrastructure control systems. Prior to its advent, most critical public works operated on physically and logically independent hardware, operating systems and software. The internet has allowed businesses to operate across the globe, accessing expanding markets, working out of virtual offices and sending information at the click of a button.

Public telecom infrastructure, as a shared resource, is far less expensive than proprietary private lines.

Cost-cutting has led many public service and private sector infrastructure systems to migrate on to public networks. Globalisation has reduced variety among infrastructure control systems and unified control on a public data network that is accessible to anyone and protected by authentication, encryption, and other virtual security. There is growing concern that criminal and other interests are outpacing the protection offered by encryption and security and that this poses a growing threat to secure use of the internet.

An independent study, conducted in 2007, of 465 businesses showed that 54% of them ™‡”‡ ò–‘–▪ŽŽ› ‘” …‘’Ž‡–‡Ž› †‡’‡†‡– ‘• —‹–‡””—’–‡† ‹• –‡”‡– …‘‡…–‹˜‹–›óä

3.4. Supply chain risk

The acceleration of globalisation over the past 20 years has been associated with major changes in supply chains. The rapid emergence of new global opportunities for production and sales, reductions in transport and logistics costs, and the new management imperatives arising from quarterly and other reporting requirements, have provided a strong impetus to creating supply chains which have a wider global reach and at the same time achieve the objectives of reducing stocks and tie-up capital. This has resulted in supply chains becoming more extensive and complex.

Risks to business

Less control over more complex supply chains

In a recent MIT survey of global supply chains, 90% of those executives surveyed believed that the size and frequency of supply chain shocks was increasing in their company. Globalisation has allowed businesses to expand across many countries and provided more choice of suppliers. However, as supply chains become more complex, additional layers of risk are added. Businesses may not have direct control over the day-to-day operations within every stage of their supply chains.

Vulnerability of just-in-time business models

The risk to complex supply chains is heightened by the small margin of error that businesses build into them. Small changes to delivery schedules can have dramatic knock-on effects on production and sales. The disruption to supplies may arise at the point of production or in transport and delivery. The reasons are extremely wideranging and include problems further down the supply chain; such as fires, strikes, energy outages, bankruptcy, accidents or managerial failures.

Cascade failure

There is strong evidence that as supply chains become more extensive and complex, risk of a given disruption becoming serious or causing cascade failure has increased. A cascade failure is a system-wide shutdown caused by the failure of one or more critical and non-redundant elements. It can be distinguished from routine failure, which is any unplanned disruption that degrades a •›•–‡ï• ‡ˆˆ‹…‹‡…› „—– †'‡• '– …”▪•Š ‹–ä

Cascading failures, as the name suggests, are a particular threat to lean and long supply chains. Their causes are manifold and include operational and technological risks, social risks, natural hazards, economic variations, and legal and political disruptions. Breaks in supply chains are not a new phenomenon, but as these chains get tighter and are linked to an increasing number of global production networks, a small disruption in one location can quickly cascade to a production failure in another.

5. Food security

Globalisation has led to a rapid increase in incomes, which, along with population growth, has fuelled an increase in food demand, as well as a transformation in the types of foods under demand, most notably processed foods. Continuing population and consumption growth will mean that the global annual demand for food will increase for at least another 40 years.91

The global shift towards standardisation is nowhere more stark than in the natural environment and the ecosystems that supply our food. Due to the growth in food demand, our standard practice is to replace natural diversity with artificial monoculture environments that can yield large harvests and herds with minimal labour inputs. Planting monocultures in the fields ensures that the whole regional agricultural support infrastructure, including research, development, suppliers, storage, transport and markets is also highly specialised, and therefore sensitive to fluctuations in crop yields and herd health.

Risks to business

Crop control

The increasing monoculture environments across the globe can be decimated by parasites and pathogens. To counteract that threat, we protect them with pesticides (for crops) and antibiotics (for livestock and herds) which can present a localised risk to populations and businesses.

Quotas

The global fisheries catch stopped growing in the mid- 1980s and has been flat or declining ever since, leading •‘‡ ˆ‹•Š‡”‹‡• ‡š’‡”–• –‘ †‡…Ž▪”‡ î’‡▪ ˆ‹•Šï ˆ‘” –Š‡ ™‘”Ž†ï• oceans and to warn of imminent collapses in natural fish stocks.95 Despite a down turn due to th economic recession, 37% of all global fishery production is destined for export to world markets.96 In recent years, fishing moratoriums have been forced on the Coral Triangle of Indonesia (2010), the Beaufort Sea (2009), the South China Sea (1999), Newfoundland (1993), and many other zones of the ocean to save harvested stocks from extinction.

Food shortages

In 2008, poor growing conditions and mass parasitic events - plus the unintended effect of biofuel consumption of maize - aligned to prompt a food crisis in the developing world. Between 2006 and 2008, average world prices for rice rose by 217%, wheat by 136%, corn by 125% and soybeans by 107%.98 Shortages led to increased hunger and poverty in a number of countries and, in several cases, contributed to outbreaks of violent conflict, mainly in hard-hit parts of Asia and Africa.

6. Geo-political risk

The nature of geo-political risk has changed. Traditional military events between large armies are, in general, a remote possibility. The change in power relations at the end of the Cold War from big states to small-state actors is a fundamental change in the nature systemic risk, which is a consequence of the tidal wave of globalization over the past 20 or so years. The same infrastructure, networks, technological development and economic investment that expanded the global population can also serve as platforms for coordination and assault by those who seek to undermine entrenched powers. For angry non-state actors, systemic vulnerabilities are tempting opportunities to inflict catastrophic damage.

Risks to business

Piracy

GŽ‘„▪Ž‹•▪–‹‘ï• ”‡Ž‹▪• …‡ ‘ ‡› –”▪• •’‘”– ▪• † ‘–Š‡” links has provided a boon to pir which has staged a remarkable comeback; now armed with new technologies such as GPS systems, satellite phones, and rocket-propelled grenade launchers.

Terrorism

The most spectacular evidence of our present geopolitical vulnerability are the New York terrorist attacks of 9/11 in 2001, the March 2004 train bombing in Madrid and the 7/7 attacks in London. These events demonstrated clearly that a competent, well-financed private organisation _ in many of these cases, al Qaeda - can overcome contemporary public security measures in order to prepare, deliver and detonate effective weapons at strategically and symbolically important locations.

Political instability

As discussed in past unit, globalisation facilitated the growth of capital, innovation and interdependencies which contributed to the economic crisis. Many governments have had to take drastic action to stabilize their economies. However, this has created emotive and sometimes violent responses amongst national populations.

4.0 Conclusion

There are several trends which are certainly slowing down, if not reversing, the rapid pace of globalisation. There is evidence of protectionism, nationalist sentiments and renewed tight economic regulations as a response to the recent economic crisis as well as other risks involved in operating in a globalised world. Acting globally has become the norm for most companies and most people benefit from the success that globalisation can bring. Globalisation has built deep and integrated connections between societies and economies that will not be broken easily and in many ways globalisation has become a defining and permanent feature of the global system.

5.0 Summaries

In this unit, Topics covered include the following.

- Economic and financial risk
- Global pandemic risk
- Infrastructure risk
- Supply chain risk
- Food security
- Geo- political risk.

We shall proceed to consider various business and government policies in next unit.

6.0 Tutor-marked assignment

a) Discuss the concept of Geo-political risk
b) What are the risk linked with business in Food security
c) Summarize the concept of Global pandemic risk
d) Analyse differences Credit crunch and Consumption

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RAND Infrastructure, Safety and Environment programme
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UNIT 10: BUSINESS POLICY _ DEFINITION AND DISCUSSION OF CONCEPT

TABLE OF CONTENTS

1.0 INTRODUCTION

Every organisation has a purpose for which it was established _ either for profit making or nonprofit making, and closely allied to the purpose of an organisation are the principles on which it is to be conducted. These principles in business parlance are commonly called òP‘Ž‹…›ó . Policy, according to Kalejaye (1998), denotes a future course of action of intent towards the activities of an organisation.

He opined that there is more to the meaning of policy than an expression of intent. To him, there is usually the connotation that policies should express the beliefs of the organisation, the things that are right to do and the courses of action which it ought to take organisation. This explains why policies on the same subject can be so different from one organisation t another.

Every business requires guidelines which are to be embedded in policy. Policy is a decision rule,not a decision (Ackoff 1993). Principles in business parlance are commonly known as policy.

Policy denotes a future course of action of intent towards the activities of an organization.

In this unit, you will be introduced to the meaning of business policy in order to prepare you for all the associated ideas about the concept in business management. We shall also highlight the reasons why business policy is necessary. Finally, we shall explain busines policy implementation in an organisation.

I believe you have read the course guide and have a general understanding of this course unit and how it fits into the course as a whole. You will see the objectives below sp what you are expected to learn after reading this unit.

2.0 OBJECTIVES

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

Define business policy

State the need for business policy

[redacted]xplain business policy implementation in organization

3.0 MAIN CONTENT

The introductory unit is intended to familiarize you with business policy. It starts v description of business policy. It starts with a description into the development proces that evolved before learners like you got the opportunity to study this course.

Next, we shall introduce you to the nature of business policy where its definition provided. You should be convinced of the importance of the business policy course to be motivated to learn it better. Hence, we have to be clear about the purpose and objectives of the course that we are learning. The objectives of the course have been described in terms of knowledge, skills and attitudes. It is essential to know what to expect from this course and in which direction the learning objectives are likely to take the students.

3.1 Definition of Policy

What comes to your mind when the word policy is mentioned? As stated in the introduction earlier, policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision.

A policy is considered the general guideline for decision making. Kalejaye, A. (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization.

According to Fagbemi (2006) a policy refers to what an organization or a person intends to do or does. Business policy therefore is what business organization intends to do. It aims at assisting the organization to deliver services to meet the needs and expectations of th goals of the organization.

Policies are plans in that they are general statements or understandings that guide channel thinking in decision making. In actual business situation, not all policies are ò•–▪–‡‡–•óâ –Š‡› ▪”‡ ‘ˆ–‡ ‡”‡Ž› ‹’Ž‹‡† ˆ”‘ –Š‡ ▪…–‹‘ ‘ˆ ▪• ▪‰‡”•ä _Š‡ ’”‡•‹†‡• – ‘ˆ ▪ company (organization), for example may strictly follow-perhaps for convenience rather than as policy-the practice of promoting from within; the practice may be interprete policy and carefully followed by subordinates.

Weighrich & Koontz (2005) To be candid, it is incumbent upon the managers to ensure that subordinates do not interpret as minor managerial decisions that are not intended to serve as patterns.
Business policy is a guide and roadmap to create awareness and direction to the management of any organization. It publicizes the rights and obligations of different rung of the ladderhorizontal
and vertical- of the different capital be human resource engagement, finance utilization etc. It ensures that organizations deliver better end product within a framework.
It encourages, promotes and improves performance attainment in an organization.
Policy provides the bedrock for vision and mission statement of the business organization along the corporate objectives and goal. Policy enables the business to be assessed given an image by the way the carry out their responsibility along with their relationship
™‹–Š –Š‡‹” …Ž‹‡• –•‡”•ä I– ‹• –Š‡ î„▪”‘‡–‡”ï ‘ˆ ’Ž▪›‹‰‰ „› –Š‡ ”—Ž‡ ▪• † ‰‹˜‡• ’—”“•‡
to the strategy
thrust of the organization.

Self-Assessment Exercise 1.1

Define a policy.

3.2 Definition of Business

Wikipedia (2012) states that a **business** (also known as **enterprise** or **firm**) is a organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.
The etymology of "business" relates to the state of being busy either as an individual society as a whole, doing commercially viable and profitable work.
The term "business" has at least three usages, depending on the scope _ the singular usage to mean a particular organization; the generalized usage to refer to a particular mark sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services. However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings.
Although forms of business ownership vary by jurisdiction, there are several common forms:
[redacted]**ole proprietorship:** A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.
[redacted]**artnership:** A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.
[redacted]**orporation:** A corporation is a limited liability business that has a separate leg personality from its members. Corporations can be either government-owned or privately owned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be

either privately held or publicly held.

[redacted]**ooperative:** Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either consumer cooperatives or worker cooperatives.

Cooperatives are fundamental to the ideology of economic democracy.

Self Assessment Exercise 1.2

What is a business?

3.3 Definition of Business Policy

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization (Wikipedia, 2012). It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organization to govern its actio They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved.

Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

1. **Specific-** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
2. **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
3. **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.
4. **Appropriate-** Policy should be appropriate to the present organizational goal.
5. **Simple-** A policy should be simple and easily understood by all in the organization.
6. **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.
7. **Flexible-** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers
use them in repetitive/routine scenarios.
8. **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

Rama Rao (2010) gave some useful definitions of Business Policy as follows:

(1) A business policy is an implied overall guide setting up boundaries that supply general limit and direction in which managerial action will take place.

(2) A business policy is one, which focuses attention on the strategic allocation of sca resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.

(3) A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.

(4) A business policy is the study of the nature and process of choice about the future o independent enterprises by those responsible for decisions and their implementation.

(5) The purpose of a business policy is to enable the management to relate prop
‘”‰▪• ‹œ▪–‹‘ï• ™‘” –‘ ‹–• ‡˜‹”‘‡–ä B—•‹‡•• ”Ž‹…‹‡• ▪”‡ ‰—‹†‡• –‘ ▪…–‹‘ ‘” …Š▪• • ‡Ž•
to thinking.

3.3.1 Difference between Policy and Strategy

_Š‡ –‡” ò”Ž‹…›ó •Š‘—Ž† ‘– „‡ …‘•‹†‡”‡† ▪• •›‘›‘—• –‘ –Š‡ –‡” ò•–”▪–‡‰›óä _Š‡
difference between policy and strategy can be summarized as follows:

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature.

While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.

2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.

3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.

4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.

A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

Self Assessment Exercise 1.3

sä D‡ˆ‹‡á ‹ ›‘—” ‘™ ™‘”†•á –Š‡ …‘…‡’– îB—•‹‡•• _‘Ž‹…›ïä

2. State the major differences between a policy and a strategy.

3.4 Objectives of Business Policy

The main objective of business policy is performance driven which ensures delivery of service or product depending on purpose of which the business was set up-service or product oriented.

Business policy specific objectives ensure:

[redacted]fficiency and effectives in performance of duties
[redacted]qual provision of services and treatment of customers
[redacted]etter management and provision of better quality services
[redacted]he utilization and application of resources
[redacted]he formulation mission statement
[redacted]he establishment of vision of the organization

Policies are always aligned with the objectives of the enterprise if it is to be effective. All policies follow parallel courses and directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy (Kalejaye, 1998).

The major reasons for having policies are as follows:

3.4.1 Why Create Business Policies?

No matter what the size of the business, business policies can be simple to w implement, while adding structure to the great things you are already doing. *Specific business policies:*

[redacted]rive strategic planning, and help set expectations and performance objectives.
[redacted]ead to more efficient internal operations.

[redacted]Engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.

[redacted]nsure accountability and create transparency.

[redacted]romote ethical and responsible decision-making.

[redacted]ssess and mitigate risk.

[redacted]treamline new staff orientation; having established written policies that staff can refer to creates consistency, clarity, and provides an understanding of the goals and culture of the company.

[redacted]esult in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.

[redacted]leet legal requirements; some laws require employers to adopt certain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

Self-assessment exercise 1.4

What are the objectives of Business Policy?

4.0 CONCLUSION

In conclusion, it is deduced that every organization including business requires a policy as a decision rule to guides the activities and performance of the business to eventua achieve goals and objective of the organization.

5.0 SUMMARY

In this unit, we have made an overview of the con…‡’− î„—•‹‡•• ’‘Ž‹…›ïä _Š‡ …‘…‡’ policy, business and business policy had also been respectively defined. We have also identified the reasons for business policy. Finally, we listed and briefly explained the objectives of a business policy.

In the next unit, we shall trace the evolution of business policy as a discipline.

6.0 TUTOR MARKED ASSIGNMENT

1) Define a Business Policy.
2) What are main objectives of Business Policy?
3) Why does a business create policy?

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UNIT 11: EVOLUTION OF BUSINESS POLICY AS A DISCIPLINE

TABLE OF CONTENTS

1.0 INTRODUCTION

I• –Š‡ Ž▪•– —◻‹–á ™‡ ‰▪˜‡ ▪• ˜‡”˜‹‡™ ‘ˆ –Š‡ …‘◻…‡’– î„—•‹◻‡•• ’Ž‹…›ïä _‡ †‡ˆ‹◻‡† –Š concepts policy, business and business policy. We also identified the reasons for business policy. Finally, we listed and briefly explained.

In this unit, we shall trace the evolution of business policy as a discipline.

2.0 OBJECTIVES

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

[redacted]race the evolution of business policy as a discipline;
[redacted]iscuss the genesis of business policy;
[redacted]race the evolution of business policy based on managerial practices;
[redacted]iscuss the historical perspective of the evolution of business policy;
[redacted]redict the future business policy in regard to managerial practices.

3.0 MAIN CONTENT

3.1 Evolution of Business Policy as a Discipline

Kazmi (2006) states that business policy is a mandatory course which is usually included in a typical management study curriculum. According to him, almost all management education programmes offered by the universities and management institutes in Nigeria include business policy course (by whatever nomenclature it may be addressed) normally in the latter part of a degree or diploma programme.

3.2 The Genesis of Business Policy

Tracing the history of business policy, Kazmi (2006) stated that its can be traced back to 1911, when the Harvard Business School introduced an integrative course in management aimed providing general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908 (Christensen, et. al., 1982 cited in Kazmi, 2006). However, the real impetus for introducing business policy in the curriculum of business schools (as management institutes or departments are known in the United States) came with the publication of two reports in 1959. The Gord Howell report, sponsored by the Ford Foundation, had recommended a capstone course of business pol‹…› ™Š‹…Š ™‘—Ž† òå‰‹˜‡ •——†‡• –• ▪• ‘”“”——◻‹–› –‘ ’—ŽŽ –‘‰‡–Š‡” ™Š▪– –Š‡› have learned in the separate business fields and utilize this knowledge in analysis

…‘’Ž‡š „—•‹‡•• ’”‘„Ž‡•ó _K▪œ‹á trrx_ä _Š‡ _‹‡”•‘ ”‡’‘”–á •’‘•‘”‡† „› –Š‡ C▪”‡‰‹‡
Foundation, and published simultaneously, had made a similar recommendation.
In 1969, the American Assembly of Collegiate Schools of Business), a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. In the last two decades, business policy has become an integral part of management education curriculum. The practice of including business policy in the management curriculum has spread from the United States to other parts of the world. The contents of the course, teaching methodology and so on vary from institution to institution.
But basically, business policy is considered a capstone integrative course offered to students who have already been through a set of core functional area courses. The te
ò„—•‹‡•• ’’Ž‹…›ó Š▪• „‡‡• —•‡†
traditionally though new titles such as strategic management, corporate strategy and policy and so on are now used extensively for the course. The discussion has so far been related to the academic status of the business policy course. In practice, however, the developmen has been along different lines.

3.3 Evolution based on Managerial Practices

Kazmi, (2006) have viewed the development in business policy as arising from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers, till recently, tried to anticipate the future through the preparation of bu and by using control systems like capital budgeting and management by objectives. However, as these techniques were unable to emphasise the role of the future adequately, long-range planning came into use.
But, soon, long-range planning was replaced by strategic planning, and later, by strategic planning _▪ –‡”• –Š▪– ‹• …—””‡• –Ž› „‡‹‰ —•‡† –‘ †‡•…”‹„‡ ò–Š‡ ’”‘…‡•• of strateg †‡…‹•‹‘• ▪• ‹‰óä
Strategic management forms the theoretical framework for business policy courses today.

3.4 Historical Perspective of the Evolution of Business Policy

Hofer et al., (1984) have viewed the evolution of business policy in terms of four paradigm shifts. For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject, business policy. It is interesting to note that the development of business policy, as a field of study, has closely followed the demands real-life business. He further the first phase which can be traced to the mid-1930s, rested on the paradigm of ad-hoc policy-making. The need for policy-making arose due to the nature of the American business firms of that period. The first, which had originally commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. Informal control and coordination became partially irrelevant as expansion took place and the need to integrate functional areas arose. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management. Due to the increasing environmental changes in the 1930s and 40s in the United States, planned policy formulation replaced ad-hoc policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.
Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of a business could no longer be served

policy-making and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties.

The current thinking _ which emerged in the eighties _ is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic process of business firms and the responsibilities of general management.

The story is far from over. As Thompson and Strickland (1984) say, the approaches • ‡–Š'†• '^ ▪• ▪Ž›•‹• '^ •–"▪–‡‰‹… • ▪• ▪‰‡‡– òŠ▪˜‡ ' – ›‡– …'▪Ž‡•…‡† ‹• –' ▪ î–Š‡'"›ï '^ Š'™ to manage an enterp"‹•‡á „—– ò–Š‡› ˜‡"› †‡ˆ‹‹–‡Ž› †' "‡'"‡•‡• – ▪ '"™‡"ˆ—Ž ™▪› '^ –Š‹‹‰ –' "‡•'Ž˜‡ •–"▪–‡‰‹… ‹••—‡•óä

3.5 Pointers to the Future

The resolution of strategic issues that affect the future of a business firm has been continual endeavour in the subject of business policy. The endeavour is based on the †‡˜‡Ž'‡– '^ •–"▪–‡‰‹… –Š‹‹‰ä A• _Š‹–‡ˆ‹‡Ž† •▪›• ò"‡▪ŽŽ› —•‡ˆ—Ž –"▪‹‹‰ _‹ •–"▪–‡‰› • ▪• ▪‰‡‡– •Š'—Ž† ›‹‡Ž†_ åä A …'"'"‡Š‡•‹' '^ ▪ ˆ‡™ ‰‡‡"▪Ž '"‹…‹Ž‡• ™‹–Š ▪ –Š''"'—‰Š grounding in the way they appl› –' ▪ ˜▪"‹‡–› '^ …'…"‡–‡ †‡–▪‹Ž•óä M'•– Ž‹‡Ž›á –Š‡ •——†‡• –• ™‹ŽŽ ˆ'"‰‡– –Š‡ †‡–▪‹Ž• ▪• † '"‹…‹Ž‡• „—– ò"‡‡„‡" _—•—▪ŽŽ› —…'•…‹'—•Ž›_ ‡™á '-obvious ways of thinking •–"▪–‡‰‹…▪ŽŽ›ó _K▪œ‹á trrx_ä _Š‡ ‰‡‡"▪Ž '"‹…‹Ž‡• —†‡"‰‹"†‹‰ •–"▪–‡‰‹… –Š‹ been the focus of the efforts of researchers and academicians in the field of business policy.

What, then, are these general principles? As a first step, the model of strategic management that has developed so far, and is under constant review, incorporates these general principles.

The direction in which strategic management is moving can be anticipated from what _A•'^^á s{zv_ …▪ŽŽ• ▪• ‡‡"‰‹‰ ‰'"'‡Š‡•‹˜‡ ▪'"'▪…Š '^ ò• ▪• ▪‰‡‡– '^ discontinuous change, which takes account of psychological, sociological, political, and •›•–‡‹… …Š▪"▪…–‡"‹•–‹…• '^ …'"'Ž‡š '"‰▪• ‹œ▪–‹'•óä _‹–Š –Š‡ ‡‡"‰‡…‡ '^^———"‹•–‹… organizations, which, in the words of Toffler, are no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, "Ž‹–‹…▪Žá"▪…‹▪Žá •‡š—▪Žá ▪• † •'…‹▪Ž '"'„Ž‡•áó _'^^Ž‡"á s{zr_ –Š‡ †‡• ▪• †• ' „—•‹‡•• policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in business policy. Responding to the need for evolving new approaches to the teaching of business policy, the AACSB no longer insists on the provision of just one course in this area. Now there is an emerging trend to have several courses, such as, the theory of strategic competitive strategy, industry dynamics, hyper-competition, and global strategy in the curriculum (Kazmi, 2006).

While reviewing the development of strategy and theory, Rumelt, Schendel and Teece (1994) posed four fundamental questions which, in their view, characterize the major concerns of strategic management. These four fundamental questions are:

1. How do firms behave? Or, do firms really behave like rational actors, and, if not, w
models of their behavior should be used by researchers and policy-makers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?
3. What is the function of or the value added by the headquarters unit in a diversified firm?
Or, what limits the scope of a firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

In dealing with most of the issues raised by these fundamental questions, we would need to look at what has been happening in Nigerian business scene.

4.0 CONCLUSION

We have gained familiarity with the course of business policy and strategic management by learning about its history and its present status. We have also learnt what to aim for in this course. The main points covered in this unit are as follows:

5.0 SUMMARY

In this unit, we have traced the evolution of business policy as a discipline; discussed the genesis of business policy; traced the evolution of business policy based on managerial practices; discussed the historical perspective of the evolution of business policy; predicted the future
business policy in regard to managerial practices.

In the next unit, we shall examine the nature, objective and purpose of business policy.

6.0 TUTOR-MARKED ASSIGNMENT

1. Business policy is a capstone, integrative course. Explain.
2. In what direction is strategic management likely to move in the future?

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UNIT 12: NATURE, OBJECTIVE AND PURPOSE OF BUSINESS POLICY

TABLE OF CONTENTS

1.0 INTRODUCTION

I• –Š‡ Ž▪•– —‹–á ™‡ ‰▪˜‡ ▪• ˜‡”˜‹‡™ ‘ˆ –Š‡ …‘…‡’– î„—•‹‡•• ’Ž‹…›ïä _‡ †‡ˆ‹‡† –Š
concepts policy, business and business policy. We also identified the reasons for business policy. Finally, we listed and briefly explained.

In this unit, we shall trace the evolution of business policy as a discipline.

2.0 OBJECTIVES

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

[redacted]tate the nature of business policy;
[redacted]ighlight the importance of business policy;
[redacted]numerate the purposes of business policy
[redacted]ist the objectives of business policy.

3.0 MAIN CONTENT

3.1 The Nature of Business Policy

Before we proceed to understand the nature of business policy, let us witness these situations, as reported in an issue of a reputed business magazine in India: (Kazmi, 2006).

Exide reaps the benefits of its strategies, which include modernization, expansion, and acquisitions, to become the integrated leader in the battery sector. Costly expansions and poor demand have forced JK
Corp to rework its strategies. It is now banking its future on its core paper business. This will come through the divestment of its cement division, Laxmi Cements, and the acquisition of the Central Pulp Mills. Tisco is using divestments and mergers to restructure its core businesses of steel, allied industries, refractory, and engineering. Exim Bank (the Export and Import Bank of India), established in the early eighties with the objective extending support to Indian exporters and importers, still remains small given the Indian
‡…‘‘›ï• ”‡“—‹”‡‡–•ä A• ‹– ˆ▪…‡• –‘—‰Š …‘’‡–‹–‹‘ ˆ”‘ –Š‡ •…Š‡†—Ž‡† …‘‡”…‹▪Ž banks it needs a strategic vision to cope with the increasing competition in the new millennium.

From the above reports, we can see that when a company either promotes a joint venture, divests a part of its business, embarks upon an expansion programme, undertakes mergers and acquisitions or takes other similar actions which have a long-term impact on its future operations and status, those are a result of senior management decision-making. The senior management in any organization is primarily responsible for guiding the future course of action and for providing a sense of direction. Business policy attempts to inculcate the capability for senior management in one toward these ends.

K▪œ⍰‹á trrx_á †‡ˆ‹⍰‡† „—•‹⍰‡•• ″Ž‹…› ‹• ò–Š‡ •——†› ‘ˆ –Š‡ ˆ—⍰…–‹‘• ▪• † ″‡•″‘⍰•‹„‹Ž‹–‹‡• ‘ˆ senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identify and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face …‘⍰’‡–‹–‹‘⍰ ‘” ▪†˜‡”•‡ …‹”…—⍰•–▪• …‡•óä

This comprehensive definition covers many aspects of business policy. Firstly, it is considered as the study of the functions and responsibilities of the senior management related to those organizational problems which affect the success of the total enterpr Secondly, it deals with the determination of the future course of action that an organization has to adopt. Thirdly, it involves a choosing the purpose and defining what needs to be done in order to mould the character and identity of an organization. Lastly, it is also concerned with the mobilization of resources, which will help the organization to achieve its goals.

The senior management consists of those managers who are primarily responsible for long-term decisions, and who carry designations, such as, Chief Executive Officer, President, General Manager, or Executive Director. These are persons who are not concerned with the day-to-day problems but are expected to devote their time and energy to thinking and deciding about the future course of action. With its concern for the determination of the future course of action, business policy lays down a long-term plan, which the organization then follows. While deciding about a future course of action, the senior management are confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead the organization in a specific direction. By moving in a predetermined direction, an organization can attain its planned identity and character.

3.2 The Importance of Business Policy

Kazmi (2006) opined that business policy is important as a course in the managemen curriculum and as a component of executive development programmes for middle-level managers who are preparing to move up to the senior management level. A study o business policy fulfills the needs of management students as well as those of middle-level managers. To highlight the importance of business policy, we shall consider four areas where this course proves to be beneficial.

3.2.1 Learning the Course

Business policy seeks to *integrate the knowledge and experience* gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional areas.

Business policy *deals with the constraints and complexities of real-life businesses*. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge, resulting from a simplification of the complex overall tasks and responsibilities of the management.

To develop a theoretical structure of its own, business policy *cuts across the narrow functional boundaries* and draws upon a variety of sources _ other courses in the management curriculum and a wide variety of disciplines, like economics, sociology, psychology, political science, and so on. In so doing, business policy offers a very broad perspective to its students.

Business policy *makes the study and practice of management more meaningful* as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organization as a whole.

3.2.2 Understanding the Business Environment

Regardless of the level of management a person belongs to, business policy helps to *create an understanding of how policies are formulated*. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation. By gaining an understanding of the business environment, *managers become more receptive to the ideas and suggestions of the senior management*. Such an attitude on the part of the management makes the task of policy implementation simpler. When they become capable of relating environmental changes to policy changes within an organization *managers feel themselves to be a part of a greater design*. This helps to reduce their feeling of isolation.

3.2.3 Understanding the Organization

Business policy presents *a basic framework for understanding strategic decision-making* while a person is at the middle level of management. Such a framework, combined with the experience gained while working in a specialized functional area, enables a person to make preparations for handling general management responsibilities. This benefits the organization in a variety of ways.

Business policy, like most other areas of management, brings *the benefit of years of distilled experience in strategic decision-making* to the organization and also to its managers. Case study _ which is the most common pedagogical tool in business policy _ provides illustrations of real life business strategy formulation and implementation. An understanding of business policy may also lead to an *improvement in job performance*. As a middle-level manager, a person is enabled to understand the linkage between the different sub-units of an organization and how a particular sub-unit fits into the overall picture. This has far-reaching implications for managerial functions like coordination and communication, and also for the avoidance of inter-departmental conflicts.

3.2.4 Personal Development

A study of business policy offers considerable scope for personal development. It is a fact of organizational life that the different sub-units within an organization have a varying value and importance at different times. It often happens that a company which has followed a production orientation as a matter of policy gradually shifts emphasis to marketing may be due to increasing competition. In the changed situation, executives within the production departments have fewer opportunities for career advancement as compared to their colleagues in marketing. In this case, *it is beneficial for an executive to understand the impact of policy shifts on the* •–▪––—• ‘ˆ ‘�‡ï• †‡’▪”–�‡�– ▪• † ‘• –Š‡ ʻ•‹–‹‘� ‘�‡ ‘……—’‹‡• . In extreme cases, many positions may become redundant due to policy shifts and retrenchment is inevitable. Business India cautions executives, especially those who work for multinationals. It says òåää ʼ‡”•‘�• ™Š‘ Š▪˜‡ devoted their lives working for one company suddenly find bewildering changes at head offices ‹• –Š‡ _K ▪• † __óá ▪• † ▪††• –Š▪– ”‡‘”‰▪• ‹œ▪–‹‘• ▪• † …Š▪• ‰‡• ▪– –Š‡ –‘ Ž‡˜‡Ž …▪ Š▪˜‡ ▪ †”▪• ▪–‹… ‹�ʼ▪…– ‘� ‹�†‹˜‹†—▪Ž•ä òI– ‹• ‘�Ž› –“ …‘��‘� ˆ‘” †‹˜‹•‹‘�• ‘ˆ ▪ …‘�ʼ▪• › –‘ „‡ •Š—– †‘™� ™‘”Ž†™‹†‡ ‘” –‘ „‡ •‘Ž† ‘ˆˆ –‘ ▪• ‘–Š‡” …‘�ʼ▪• ›óä

An understanding of business policy enables executives to *avail an opportunity or avoid a risk with regard to career planning and development*.

While making a career choice, a study of business policy *provides an adequate grounding for understanding the macro factors and their impact at the micro level*. By gaining an understanding of such an impact, an executive is better placed to identify the growth areas. For instance, in the current business situation in India, a career in the computer industry, especially in software, would offer better personal growth opportunities than, say, the steel industry. Business policy offers *a unique perspective to executives to understand the senior* • ▪• ▪‰‡�‡�–ï• ˜‹‡™’‘‹• – . With such an understanding the chances that a proposal made by or an action taken by an executive will be appreciated by senior managers is decidedly better.

An interesting by-product of the business policy course is the *theoretical framework provided in the form of the strategic management model*. The applicability of this model is not limited to businesses alone. It can be applied to organizations like, services, educational institutions, family, government, public administration, and to many other areas. In fact, the model provides powerful insights for dealing with policy-making at the macro level as well as at an individual level through self-analysis. The importance of business policy stems from the fact that it offers advantages to an executive from multiple sources. Apart from the intangible benefits, an executive gains an understanding of the business environment and the organization he or she works in. such an understanding can help considerably in career planning and development.

3.3 The Purpose of Business Policy

îB—•‹�‡•• ʼ‘Ž‹…›ï ‹• ▪ –‡”• ▪••‘…‹▪–‡† ™‹–Š –Š‡ ‹• –‡‰”▪–‡d management course, which i generally studied in the latter part of the degree or diploma, and is preceded by the study of functional area courses in finance, marketing, operations and personnel (Kazmi, 2006). A business policy course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students. Such an approa helpful in viewing organizational problems in their totality. It can also create awareness about the repercussions that an action taken in one area of management can have on other areas individually, and on the organization as a whole.

The viewpoint adopted in business policy is different from that adopted in the functional area courses. For instance, a marketing problem is not viewed purely as a problem of î• ▪”‡–‹%ͦï „—– ▪• ▪• ‘”‰▪• ‹œ▪–‹‘• ▪Ž ’”‘„Ž‡ä A …‘—”•‡ ‹ „—•‹‡•• ’‘Ž‹…› Š‡Ž’• ‹ understanding a business as a system consisting of a number of sub-systems. Any act taken in one sub-system has an impact on other sub-systems, and on the system as a whole.
It is of vital importance for the top management in any organization to adopt such a systems approach to decision-making. Business policy helps a manager to become a generalist by avoiding the narrow perspective generally adopted by the specialists, and to deal with business problems from the viewpoint of the senior management.
The problem of declining sales volume is apparently a marketing problem. However, an analysis of the problem will show that its roots may probably lie anywhere in the organization. Declining sales volume may be due to a rising level of competition, inefficient distribution, faulty sales promotion, inappropriate recruitment policies, misdirected training, inadequate sales promotion, limited commission to sales personnel, falling quality standards, a decrease in the variety of products offered, outdated design, underutilization of capacity, demotivating credit policies and so on. a problem, which apparently seems to be a marketing problem, may be due to factors not necessarily within the control of the marketing department. A solution to the problem would necessitate transgressing the artificial boundaries between the functional areas, each of which is looked after by a team of specialists. These specialists, due to their background, training and, possibly, loyalty to their disciplines are unaware and ill-equipped to deal with all the problems in entire They may come up with short-term solutions but these are only like first-aid to a when a thorough diagnosis and treatment is required to mitigate the misery. A generalist, on the other hand, is better qualified to deal with organizational problems and can come up with solutions that will have a lasting effect. On the basis of the above discussion, we can say that the purpose of business policy is three-fold:

1. to integrate the knowledge gained in various functional areas of management;
2. to adopt a generalist approach to problem-solving, and
3. to understand the complex inter linkages operating within an organization through the use of a systems approach to decision-making and relating these to the changes ta place in the external environment.

In order to make the study of business policy purposeful, specific objectives need to b defined,
which we shall do in the next section.

3.4 The Objectives of Business Policy

It is essential that we should first state the objectives of business policy and only then proceed
further. The objectives of business policy have been stated in terms of knowledge, skills and attitudes which could be derived from the purpose of business policy.

3.4.1 Knowledge

1. The learners of business policy have to understand the various concepts involved. Many of these concepts, like, strategy, policies, plans, and programmes are encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.

2. A knowledge of the external and internal environment and how it affects the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis, a learner can understand the environment in which a firm operates.
3. Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulated.
4. The implementation of strategy is a complex issue and is invariably the most difficul part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.
5. To learn that the problems in real-life business are unique and so are the solutions is an enlightening experience for the learners. The knowledge component of such an experience stresses the general approach to be adopted in problem-solving and decision-making. With a generalized approach, it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.
6. To survey the literature and learn about the research taking place in the field of business policy is also an important knowledge objective.

3.4.2 Skills

1. The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by an analysis of the business events taking place around us.
2. The study of business policy should enable a student to develop analytical ability and use it to understand the situation in a given case or incident.
3. Further, the study of business policy should lead to the skill of identifying the factors relevant in decision-making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestion of appropriate strategies and policies form the core content of general management decision-making.
4. The above objectives, in terms of skills, increase the mental ability of the learners enable them to link theory with practice. Such an ability is important in managerial decision making where a large number of factors have to be considered at once to suggest appropriate action.
5. As a part of business policy study, case analysis leads to the development of oral as well as written communication skills.

3.4.3 Attitude

1. The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.
2. By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgment and intuition. Typically, case studies provide only a glimpse of the overall situation and a case analyst frequently faces the frustr situation of working with less than the required information. Experience has shown tha

managers, specially in the area of long-range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision under such conditions but a generalist would go ahead with whatever information was available. In this way, he or she acts more like a practitioners rather than a perfectionist.

3. For a general manager information and suggestions are important to possess a lib attitude and be receptive to new ideas. Dogmatism with regard to techniques should be replaced with a practical approach to decision-making for problem-solving. In this way, a general manager can act like a professional manager.

vä I– ‹• ‹’‘”–▪• – –‘ Š▪˜‡ –Š‡ ▪––‹––†‡ –‘ î‰‘ „‡›‘† ▪• † –Š‹ï ™Š‡ ˆ▪…‡† ™‹–Š ▪ problematic situation. Developing a creative and innovative attitude is the hallmark of a general manager who refuses to be bound by precedents and stereotyped decisions.

3.4.4 An Alternative Viewpoint on the Objectives of Business Policy Course

Anisya S. Thomas of Florida International University says that the fundamental objectives of the capstone business policy course have remained relatively stable over a long period of time.

There is broad agreement among textbook writers and instructors that these objectives encompass content as well as process dimensions, that is, they deal with the core concepts and theories and also seek to teach an analytical process that incorporates multiple perspectives.

More specifically, these objectives are as below:

1. Integration of functionally specific knowledge. Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on.

2. Understa†‹‰ –Š‡ î„‹‰ ’‹…–—”‡ïä C‘• • —‹…▪–‹‰ –Š‡ ▪’’‡…‹▪–‹‘ ‘ˆ –Š‡ •›‡”‰› …”‡▪–‡† by managing the interdependence among the functional areas is a critical objective of business policy. A general management perspective aids in exposing the student to the tradeoffs involved in achieving superior performance by balancing the internal competencies with the external requirements.

3. Working in, managing, and leading a team. Working with and managing a diverse and flexible team is a critical priority with the corporate recruiters. (Interestingly, a simil view is expressed on the basis of surveys conducted by the Indian business magazines too.) Business policy tries to build up the teamwork spirit by illustrating the finer aspects of group dynamics and by bringing together students from different specialization areas.

4. Enhancement of comprehension and communication skills. Business policy lays great emphasis on allowing students to be active participants in the learning process. In contrast to the functional courses, there is a stress on using methodologies, such as case discussions, and oral and written presentations and reports.

5. Ability to assess the applicability and relevance of strategic management research (theory to practice). Theoretical advances in the field of business policy are taking plac rapidly. It is necessary for the students to evaluate the relative merit and applicability c theoretical advances to deal with the rapid environmental and strategic changes that characterize the business arena. So it is imperative that the students not just learn but also learn how to learn (Kazmi, 2006).

Having looked at the above alternative view of the objectives of business policy course, you will be in a position to gain further insight into the issue. The objective business policy, in terms of knowledge, skills and attitude could be further extended to the areas of behavior

and performance. After having attained knowledge of the objectives in the classroom, or in an
executive development programme, the learner is expected to exhibit appropriate behavior
and good performance on the job. The structure of business policy, built through the accumulation of experience as one moves up the managerial ladder. The richness and variety of experience gained as one moves up the managerial ladder in business offers opportunities of testing,
validating, and replicating the mental images and models learnt in the business policy course.
Such an approach imparts an added impetus to the development of general management capability which is the *sine qua non* for a manager who wishes to succeed in his or her job
and make a meaningful contribution to the organization he or she works for.

4.0 CONCLUSION

An attempt has been made to understand the nature of business policy through a definition
and its explanation. The nature of business policy deals with studying the functions a
responsibilities of the senior management. These involve setting the future course of action
by defining the purpose of an organization and the likely shape that it should take in th
future. The senior management is also concerned with the resources necessary to help the
organization achieve its goals.

5.0 SUMMARY

In this unit, we have stated the nature of business policy; highlighted the importan business policy; enumerated the purposes of business policy and listed the objectives of business policy.

In the next unit, we shall examine the characteristics of business policy.

6.0 TUTOR-MARKED ASSIGNMENT

Questions:

1. What are the different aspects of the nature of business policy? Discuss each one of them with the help of suitable examples.
2. What are the objectives set for a business policy course in terms of knowledge, skills and attitudes?

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UNIT 13: CHARACTERISTIC OF BUSINESS POLICY

TABLE OF CONTENTS

1.0 INTRODUCTION

In this unit, we shall continue with the discussion on overview of business policy. This discussion will centre on the nature and characteristics of policy, reasons for formulating policies, and formulation of policy.

The policy thrust of an organisation solely depends on the type of business offered _ whether it is for production or services; the intensity of needs of operation and quality of human resources to be employed. It provides guidance to achieving objectives and goals of organizations.

2.0 OBJECTIVES

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

[redacted]xplain the characteristics of policy;
[redacted]st and discuss the sources of a policy;
[redacted]tate the features that make a good policy.

3.0 MAIN CONTENT

Most organisations produce statements and explanations on what they are trying to achieve in particular areas. Policies are subdivided and stated in terms of procedures i. series of related steps or tasks expressed in a chronological order, and rules i.e. prescribed course of actions that explicitly state what are to be done under a given sets of circumstances. Many organizations provide parameters within which decisions must b made. Some of these will be written by specialists in different operational areas, li employment matters which may focus on hiring and firing, sales and marketing departments may provide guidelines of pricing and credit facilities; purchasing department policies may prohibit gifts from suppliers. Some policies focus on materials/stock and others on capital and equipments. Some describe objectives and others means.

In general, policies may be classified in relation to personnel, capital, objectives, means and specific organisational areas. This is an arbitrary but convenient way to classify policies. It should be noted that these categories are not mutually exclusive but frequently overlap.

3.1 Characteristics of Policy

Sound policies usually contain a combination of the following characteristics:
(1) Destiny
(2) Top Management Approval and Commitment
(3) Intellectual Input
(4) Consistency and Long-term in Nature
(5) Acceptability
(6) Communicated to Staff
(7) Genuine Intention and Application
(8) Balanced Interpretation
(9) Alignment with Objective

[redacted]**estiny** _ A common characteristic of policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved. In addition, it implies a …'˜‹…–‹'‹ ▪ •‡– '̂ „‡Ž‹‡ˆ• ™Š‹…Š ‹• …'•‹†‡"‡† ò"‹‰Š–ó ˆ'" –Š‡ ’‡ople in the organisation.
The manner a policy is expressed and the detailed procedures which stem from it all point in the same direction and do not allow individual actions to follow a different direction. If the actual procedures and wording do not imply belief in a course of action, then it is probably a wrongly formulated policy.

[redacted]**op Management Approval and Commitment** _ In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management.
This may be Board of Directors and Managing Director or the responsibility may be delegated to a top executive committee. Directors and top managers are primarily responsible for policy making and setting long-term objectives. Once the series of policies are approved at the top, there is every possibility that all segments of the organisation will move to the same direction toward the set objectives.

[redacted]**ntellectual Input** _ Policy requires a high level of intellectual and intelligent inpu because policies are concerned about the future activities deemed to be just and right for the organisation. Policies must be able to withstand pressures, opposition and challenges from all parts of the organisation and its environment which may see and treat the policies differently.
Without a high degree of thorough analysis and deep thought of reasoning during formation, a policy may be less effective and may even fail to provide the framework enduring decision making.

[redacted]**onsistency and Long-term in Nature** _ Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve. Practically, almost all policies are long-term in nature, although for practical purposes; long-term policies are sub-divic into short-term.
It is worthy of note that there could be circumstances in which refinement and revision might be required; in essence, they are intended to create a continuum against which day-to-day standards and decisions can be made.

[redacted]**cceptability** _ The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy. There is danger in withholding information which often leads to gossip and speculation in an organisation as this can be disorganizing, cause increased friction between managemen and employees, upset and strain relationships through general suspicion and mistrust.

[redacted]**ommunicated to Staff** _ As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation. Appropriate channels must be used in channeling policies throughout the organisation, so that nobody is left out. This, of course, will cement relationship in the organisation and motivate the staff to reach higher heights.

[redacted]**enuine Intention and Application** _ It is not uncommon for management to declar policy for prestige purposes, such as publicity and then fail to put the policy into practice. M▪• ▪‰‡‡–ï• ‹• –‡• –‹‘á ‹ –Š‡•‡ …‹”…—•–▪• …‡•á ‹• –‘ ‹‰”‡ ▪• † †—’ –Š‡ †‡…Žared policies.

In some cases, some managers apply policies in wrong and negative ways, hiding under one excuse or the other for not carrying out some course of action. These types of policies are rarely put into writing and where it is in written form; they are usually wrongly worded in such vague manners that will distort to fit in with any course of genuine action at the line. These types of policies must be avoided; every policy of the management must be treated with all the seriousness it deserves and must be genuinely applied to the intended course of action.

[redacted]**alanced Interpretation** _ While correctly interpreting policies, managers do rigidly conform to principles and procedures without due regard for the human elements of organisation and emerging pressing issues. Something more than correctness is required in human society and ever changing complex environment; all these factors, when weighed carefully, might well provide a more balanced interpretation which would relegate to the background the narrow correct ones. A little of flexibility to accommodate the emerging factors and balanced interpretation of policies are the real art of managing and supervising which cannot be attributable to abuse of policy.

[redacted]**lignment with Objective** _ All policies must follow parallel courses of action which are directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy. these identified dangers highlight the need for careful checking of ambiguity in policy so as to avoid misunderstanding especially at the lower level of management hierarchy.

Self Assessment Exercise 2.1

What are the characteristics of a policy? List some of them and explain them briefly.

3.2 Sources of Policy

Kalejaye (1998) examined the major sources of policies and classified them as originated, appealed, implied and externally-imposed. These are explained as follows:

(1) Originated Source _ The most acclaimed source of policies is the one from top • ▪• ▪‰‡‡– ™Š‹…Š ‘”‹‰‹• ▪–‡• ˆ‘” –Š‡ ‡š’”‡••‡ ’—”’‘•‡ ‘ˆ ‰—‹†‹‰ –Š‡ …‘’▪• ›ï•

operations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.

(2) Appealed Source _ In practice, in most cases, policies stem from appeal through hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should b handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established.

Precedent, therefore, develops and becomes guides for future managerial action and serves as reference point.

(3) Implied Source _ Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operate policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied.

(4) Externally-imposed Source _ To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others lik trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace. Besides, local and state governments, professional associations, social and charitable organisations do influence the policies of organisations.

Self Assessment Exercise 2.2

Briefly explain the four major sources of policies that you know of.

3.3 What Makes a Good Policy

Wikipedia (2012) states that company policies are most effective as official written documents.

While policies often differ in form depending on company size, industry, and length of time in business, policy documents generally contain certain standard components including:

- **Purpose Statement**, outlining why the organization is issuing the policy, and what the desired effect or outcome of the policy is.
- **Specifications**, including statements indicating the specific regulations, requirements, and organizational behavior that the policy is creating.
- **Implementation section**, indicating which parties is responsible for carrying out individualpolicy statements and how policy adherence will be ensured.
- **Effective Date**, which indicates when the policy is considered in force (an executive signature or endorsement can be useful to legitimize the policy).
- **Applicability and Scope Statement**, describing whom the policy affects and which actions are impacted by the policy.
- **Background**, indicating any reasons, history, and intent that led to the creation of the policy, which may be listed as motivating factors.
- **Definitions**, providing clear definitions for terms and concepts found in the policy document.

4.0 CONCLUSION

You will note from the discussion in this unit that policies are subdivided and stated in terms of procedures. For instance, it contains series of related steps or tasks expressed in a chronological order, and rules.

5.0 SUMMARY

In this unit, we describe the nature and characteristics of a policy and the sources policy. We also listed the attributes of a good policy.

In the next unit, we shall discuss the third part of overview on business policy which would extensively dwell on the types of policies, uses of policies for management effectiven integration and relationship of policies to objectives, reasons for formulating policies and the role of workers in policy formulation.

6.0 TUTOR-MARKED ASSIGNMENT

3. What makes a good policy? List them and briefly explain.
4. Sound policies usually contain some features or characteristics. List these features and briefly explain them.
5. Briefly explain the nature of a policy.

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UNIT 14 TYPES/KINDS OF POLICIES

TABLE OF CONTENTS

1.0 INTRODUCTION

In the last unit, we describe the characteristics of a policy and the sources of a policy. We also listed the attributes of a good policy.

In this unit, we shall discuss the third and final part of the overview on business which would extensively dwell on the types of policies, uses of policies for management effectiveness, integration and relationship of policies to objectives, reasons for formulating policies and the role of workers in policy formulation.

2.0 OBJECTIVES

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

[redacted]escribe how policies are formulated;
[redacted]st the types of Policy
[redacted]numerate the reasons for formulating policies;
[redacted]ighlight the uses of polices for management effectiveness;
[redacted]xplain how policies are integrated in relation to objectives;
[redacted]emize management policy areas;
[redacted]tate the role of workers in policy formulation.

3.0 MAIN CONTENT

Business policy basically deals with decisions regarding the future of an ongoing enterprise.

Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources etc., in relation to its environment. Once established the policy decisions shape the future of a company channel the available resources along desired lines and direct the ener people working at various levels toward predetermined goals. In a way, business policy implies the choice of purposes, the shaping of organizational identity and character the continuous definition of what is to be achieved and the deployment of resources for achieving corporate goals.

Business policies generally have a long life. They are established after a careful evaluation of ˜▪”‹‘—• ‹• –‡”• ▪Ž ▪• † ‡š–‡”• ▪Ž ˆ▪…–‘”• Š▪˜‹‰‰ ▪• ‹‰’▪…– ‘• –Š‡ ˆ‹”‰ï• ‰▪”‰‡– •–▪• †‹‰‰ ▪• and when circumstances change in a major way the firm is naturally forced to shift gears, rethink and reorient its policies. The World Oil crisis during the 70s has forced many manufacturers all over the globe tom reverse the existing practices and pursue a policy of manufacturing fuel efficient cars Therefore, policies should be changed in response to changing environmental and internal system conditions.

3.1 Formulation of Policy

The studies or theories in which purposeful organisations formulate policies represent a scholarly pursuit which has been carried on for years by management theorists. These scholars have observed and analysed the decision making action of managers of business and other organisations as they determined the direction and course of their respective organisations.

To influence policy thinking in an organisation is one of the important goals of an executive as Š‡ †‡˜‡Ž‘• Š‹• …▪”‡‡”ä _Š‡ ‰”‡▪–‡” ▪• ‡š‡…—–‹˜‡ï• ‹‰ˆŽ—‡‰…‡ ‘‰ ’‘Ž‹…›á –Š‡ ‰”‡▪–‡” ‹• Š‹• contribution and the higher his status among fellow executives. This, in part, is what contributes –‘ –Š‡ †‹ˆˆ‡”‡‰…‡ ▪• † ”‡•’‡…– ‰‡‰‡”▪ŽŽ› ▪……‘”†‡† ▪ …‘’▪• ›ï• …Š‹‡ˆ executive. His thinking is allcentred on policy issues and as you will note all policies are crucial to the survival, health and success of an enterprise.

Policy decisions rest fundamentally on human judgement and intuition. Some policies evolve informally over a long period of time without conscious or selective formulation. They have their origin in slowly developing customs, traditions and attitudes. Others ar formulated quickly, because the situation requires rapid implementation. Both types may originate at the top levels in the organisation and work their way down; they may also arise in a given area and remain in that area; or they may start at lower levels and permeate upward. In general, policies should be formulated by those in organisation who have th responsibility for accomplishing the particular objectives to which the policies relate.

3.2.1 Policies from Top to Bottom

Some policies cut across all functional areas of the organisation. Many are so interrelated with all area of operations that their significance can best be understood by the top level management.

Policies that originate from the top arise out of broad, basic needs perceived and defined by the top managers. In large corporations today, for instance, the Chief Accountant is an important contributor to advance planning and policy formulation. Complex taxes, new accounting procedures, mergers, computerization, insurance, pensions, investment options and appraisal, profit sharing, and depreciation of assets and other many cost implication corporate issues cause the Chief Accountant to become involved in areas that are b than strictly finance.

General policies or corporate policies affecting all areas of operation usually originate from the top management. Descending levels in the organisation structure will be guided by these policies when formulating more limited policies at their own levels.

3.2.2 Policies within Functional Areas of Departments

Those in charge of functional areas, and/or departments are generally involved in establishing policies for those areas. Marketing executives formulate marketing policies, purchasing executive formulate purchasing policies; personnel managers formulate personnel policies, etc.

These are operational policies proposed and formulated atfunctional areas and departmental levels. Managers must be consistent and operate within corporate policy guidelines while formulating policies at these levels. Policy established within functional areas may influence the formulation of policy in other functional areas as well as the strategies developed to pursue those policies.

3.2.3 Policies from Bottom to the Top

There are lots of advantages and wisdom in inviting supervisors and other operating personnel to participate in developing and implementing policies. Whenever possible, non-management employees should have a voice in policy matters that will directly affect them or their work. This ⍰‹⍰† ‘ˆ ò_▪”–‹…‹’▪–‹˜‡ M▪• ▪‰‡⍰‡⍰–ó ‡⍰‰‡⍰†‡”• ‰“† Š—• ▪• ”‡Ž▪–‹‘⍰•ä I– gives the managers a chance to hear from the workers reactions to subject policies and to accommodate them, but also to give the workers the opportunity to gratify deep seat needs for recognition and influence on –Š‡ ‰”‘—’ï• ˆ—⍰…–‹‘⍰‹⍰‰ä AŽ•‘á „› ’▪”–‹…‹’▪–‹⍰‰ policy making, a worker develops a managerial perspective and a tendency to consider the enterprise as a whole, thereby contributing to its success.

One important thing to note in the above arrangement is that policies and suggestion which may originate at or near the bottom of an organisation and which may be useful never get to the top except through strong influential pressures. If the higher level management is receptive to ideas, feelings and attitudes of those below, they will der valuable policy inputs from them. The openness of upward communication and the use of participative management method can domuch to generate upward policy formulation process.

In general, it is advisable that managers review all policies periodically, as some might have outgrown their original purpose or usefulness. They should not be glorified and perpetuated merely because they are policies, rather, they should be modified or replaced when circumstances call for such a change. Once a policy has been adopted or modified, it should be communicated to all affected by it. It is advisable to communicate policy statements at all levels in writing and to maintain a policy file that is accessible to everyone. Persons expected to conform to a policy have a right to know that such a policy exists, the purpose of that policy and why it was formulated.

Since policy formulation is not a guess work, certain definite steps are stipulated to b followed by decision makers when formulating new policies or modifying the existing ones. These are (Kalejaye, 1998):

(i) Carefully stud› –Š‡ '"‰▪• ‹•▪–‹'�ï• '„Œ‡…–‹˜‡•ä

(ii) Identify the need for a policy in a given area.

(iii) Source for and collect all possible and relevant information for the policy formulation.

(iv) Consideration must be given to all alternatives especially as they relate to the policy.

(v) Analyse all possible available outcomes.

(vi) Select the best policy statement so far made taking into consideration its possible outcome.

(vii) Review the policy statement with the employees and others who will be affected by its application.

(viii) Ensure the policy is in line with the other existing policies of the organisation.

(ix) Draw out the final policy statement including the effective dates of such a policy.

Self Assessment Exercise 3.1

List the steps required for formulating a new policy or review an existing policy.

3.2 Types of Policies

The type of organization influences the type of policies muted out for compliance. The regulations which guide decisions which guide decisions and actions vary considerably and cut across the hierarchical structure of the organization depending on the nature anc magnitude of objective. There are many types of policies _ marketing policies, financial policies, production policies, personnel policies to name a few in every organization. Within each of these areas more specific policies are developed. For example, personnel policies may cover recruitment training promotion and retirement policies. Viewed from a systems angle, policies form a hierarchy of guides to managerial thinking. At the top of level policy statements are broad. The management is responsible for developing and approving major comprehensive company policies. Middle managers usually establish less critical policies relating to the operation of their sub units.

Policies tend to „‡ �'"‡ •'‡…‹ˆ‹… ▪– Ž'™‡" Ž‡˜‡Ž•ä _Š‡ • ▪• ▪‰‡"ï• Œ'„ ‹• –' ‡�•—"‡ consonance of these policies, each must contribute to the objectives of the firms and there should be no conflict between sub system policies.

Although it is customary to think of policies as written statements it is not necessarily the case.

For example a firm may simply decline to consider handicapped employees in the selection of new personnel. In effect, this becomes an effective policy even though the company has never verbalized its position.

There are many types of policies. Examples include:

[redacted]iring university-trained engineers;
[redacted]ncouraging employees suggestions for improved cooperation;
[redacted]romoting from within, conforming strictly to a high standards of business ethics;
[redacted]etting competitive prices; and
[redacted]nsisting on fixed, rather than cost-plus, pricing.

Hicks and Gullett (1985) expressed the opinion that every operating areas ranging from sales, procurement, manufacturing, personnel (human resources) and finance need a hierarchy of supporting policies to drive the business. This move enhances policies as guide to decision define the boundaries within the organization and they direct decisions toward accomplishing objectives thereof. In the progression from objectives to policies to procedures to rules, the limits become increasingly narrow.
Steiner (1969) stated that the regulations which guide decisions and actions very considerably and cut across the hierarchical structure of the organisation depend on th nature and magnitude of mission to be accomplished. He therefore developed a pyramid to demonstrate the relationship among various types of business policies will be used as model as discussed below:
F‹‰—”‡ uäs S–‡‹‡”ï• P›”a‹† ˆ B—•‹‡•• P‘Ž‹…‹‡•
Source: Steiner, G. (1969 quoted in Kalejaye, A., 1998). Top Management Planning, Macmillan, New York.

[redacted]ajor policies
[redacted]econdary (corporate) policies
[redacted]unctional policies
[redacted]inor policies
[redacted]rocedure

PROCEDURE
H▪• †‹‰ ‹…‘‡ ‘”†‡”•á •‡”˜‹…‹‰ …—•–‘‡”ï …‘’Ž▪‹• –•á
shipping, smoking, etc.

MINOR POLICIES
Merchandise display, Plant layout, maintenance, absenteeism, etc.

FUNCTIONAL POLICIES
Marketing, Production, Research, Finance

MAJOR POLICIES
Lines of business, code of conduct

SECONDARY POLICIES
Selecting of geographical area, major customers, major customers

RULES
Delivery of paychecks, loitering around, plant, security, smoking, etc.
[redacted]ules

3.2.1 Major Policies

M▪Œ‘” ’Ž‹…‹‡• ▪”‡ ˆ‘”• —Ž▪–‡† ▪– –Š‡ –‘ ˆ –Š‡ ‘”‰▪• ‹œ▪–‹‘• ▪• † ”‡Ž▪–‡ –‘ –Š‡ …‘’▪• ›ï• main purpose. They provide guide line pertaining to such things as the line of business and ethical conduct of organization.

3.2.2 Secondary or Corporate Policies

These policies are broad and general policies formulated at the upper levels of management of the organization. These policies apply to the entire organization and deal with business facets such as the selection of major products and services and the selection of marketing areas. Much of the information generated in the proper formulation of major policies can be used in determining secondary policies, which are more specific than major policies.

3.2.3 Functional Policies

These deal with specific functional areas of the organization. They involve policies that specifically related to marketing production, finance, and other functional areas. For instance, the ABC Transport Company will accept customer exchanges or returns made within one month after purchase is an example of functional policy related to marketing.

3.2.4 Minor Policies

They are subordinate to functional policies and define in details such matters as maintenance of equipments, schedules, plant layout, absenteeism etc.

3.2.5 Procedure

This is a series of related steps or related steps or tasks expressed in chronological order to achieve a specified purpose. Procedure defines in step-by-step fashions the method by which policies are achieved. They outline precisely the manner in which an activity must be accomplished. Procedure generally permits little flexibility and deviation.

3.2.6 Rules

This is a statement of what may, must or must not be done in a particular situation or when playing a game. It explains in a lucid manner what an employee should do or is advised to do in a particular situation. You can also describe rules as the habits, the normal state of things, or what is true in most cases. Finally, a rule is a statement of what is possible according to a particular system. Rules permit the use of discretion in performing a particular task.

Self-Assessment Exercise 3.2

What is the main characteristic of functional policy?

3.3 Business policies

Business policies are sets of rules followed by a store or group of stores that define business processes, industry practices, and the scope and characteristics of a store's or group of stores' offerings. They are the central source and reference template for all allowed and supported practices within a store or group of stores.

In WebSphere Commerce, business policies are enforced with a combination of one or more business policy commands that implement the rules of the business policy. Each business policy command is a Java class. A business policy command can be shared by multiple business policies. The behavior of the business policy command is determined by the parameters passed to the command.

Parameters affecting the function of a business policy command can be introduced in three places:

- he contract term and condition referencing the business policy
- he business policy definition
- The business policy command itself.

The business policy definition may specify a set of parameters that are automatically fed into each invocation of any of commands associated with the policy. A business policy command may specify additional parameters when it is invoked. Finally, a contract term and condition may prove extra parameters for a business command unique to the term and condition.

Business policy commands for the same type of business policy must have the same interface.

The following categories of business policies are provided in Web Sphere Commerce:

3.3.1 Catalog business policies

Catalog business policies define the scope and characteristics of the catalog of products for sale in a store including prices and the categorization of products in a store's catalog.

3.3.2 Payment business policies

Invoicing, payment, and refund business policies define how a store accepts payments, pays refunds, and the format of a store's invoices.

3.3.3 Returns business policies

Returns business policies define if refunds are accepted, the time period they are accepted for, and any re-stocking fees applied to returns.

3.3.4 Shipping business policies

Shipping business policies define the shipping providers a store can use and the charges associated with each type.

3.3.5 Referral interface business policies

Referral interface business policies define the relationship between a proxy store and a remote store. Many contract terms and conditions reference business policies. This provides a measure of control over the nature of contracts a store enters into providing flexibility in

creating the contract terms and conditions. There are several types of Business policies being followed in the Business Environment. Business policies may be of the following types:

1. **External Policies:**

Policies framed to give effect to the decisions of the Government, judiciary, trade associations and such other external forces are what are called external policies. For example, under the Income-Tax Act, every employer is bound to deduct tax from the salary payable to the employees every month. Similarly, the Government requires certain number of jobs to be reserved for the backward sections of the society. To give effect to such orders, policies may be formulated at the enterprise level.

2. **Internal Policies:**

Policies formulated to give effect to certain decisions taken by the owners of a business establishment are what are called internal policies. For example, it may be the policy of a certain private sector organization to appoint certain categories of workers purely on contract basis. Similarly, a business organization may adopt a policy to produce only for the foreign market.

3. **Appealed Policies:**

Such policies are formulated to give effect to the suggestions of the staff of an organization. For example, the employees may make an appeal to the top management to ‰‹˜‡ ‡’Ž‘›‡– –‘ ▪• ‡Ž‹‰‹„Ž‡ ‡„‡”'ˆ ▪• ‡’Ž‘›‡‡ï• ˆ▪• ‹Ž› ▪ˆ–‡” –Š‡ Ž▪––‡”ï• retirement. If such a proposal is acceptable to the management, the same may be announced as a policy.

4. **Explicit Policies:**

Those policies of an organization that are stated outwardly are called explicit policies. Such policies form part of the organization manual. Most of the policies of an organization are explicit in nature. The sales policy, credit policy, etc., may be cited as examples.

5. **Implicit Policies:**

These policies are not stated outwardly. For Example, every organization follows certain policy for the recruitment of employees. Such a policy is not usually stated explicitly. Even the existing employees may not be aware of it.

3.4 Reasons for Formulating Policies

Many professionally managed businesses acknowledged that it is necessary to have policies in all the major functional areas of management. The focus areas will thus include production policy, purchasing policy, marketing policy, selling and promotional policy, etc. All these policies are expected to give support to the overall objectives of the organisation as defined by the top management and they complement each other. The major reasons for having policies are as follows:

(1) It is impossible and wrong to rely on expediency or precedents to solve problems which arise intervally or regularly. To that extent, decision-making is more consistent and detailed when policy is defined and known.

(2) Policy provides continuity for the organisation. They are more permanent than the individuals who are employed and later leave for greener pastures or are sacked; thereby providing an enduring foundation for continuity.

(3) They help to facilitate expansion and integration of new businesses into the company so that when growth occurs, there is already a firm foundation policy to apply in the new situation.

(4) They provide a yardstick with which to measure progress in the organisation. For example, policy on issue of stock items _ stipulating that no condition on which stock should be issued on verbal instruction. This may not be achievable instantly, but it sets a standard against which progress can be measured as the policy is implemented.

(5) They stimulate action, because managers and supervisors have the knowledge and confidence to make decisions and take actions knowing fully well that they are following the laid down policies.

(6) Policies also save management time because the information is available and the procedures for carrying them out are known. This, of course, assumes that the policies are made freely available to those who require them.

(7) They promote fairness in treating employee matters; provided the policies take account of the needs of the entire organisation and are interpreted consistently.

(8) Policies serve as bases for the defence of the various organisation actions and activities in the event of challenges and litigation in the court of law.

Self Assessment Exercise 3.3

Itemize the reasons why policies are formulated.

3.4 Uses of Policies for Management Effectiveness

Policies are of great importance to every organisation as they are used to establish stable ‹•–‹——–‹'á …"‡▪–‡ ‹†‡• –‹–›á •Š▪'‡ 'Ž▪• • ‹‰ ▪• † „"•– –Š‡ '"‰▪• ‹•▪–‹'ï• ‹▪‰‡ ▪• † acceptability by the public. Kalejaye (1998) itemised the various uses of policies as follows:

1. Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process.

2. Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to furth action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things. As long as managers are conforming organ‹•▪–‹'ï• 'Ž‹…‹‡•á they can safely proceed and use their own initiatives.

3. Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.
4. Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that actions are consistent with organisational policies, they are more likely to take actions than do nothing.
5. Definiteness and flexibility are both desirable to goals attainment, but calculating the tradeoff lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.
6. To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.
7. Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.
8. Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.
9. Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap ensuring that staff actions are consistent with the broad policies and actions of others the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.
10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general. The reputation that a company enjoys, whether favourable or otherwise, is frequently linked to the way the outsider perceives the company through its policy structure. It common to hear ’‡’’Ž‡ • ▪• ‹‰ •–▪–‡‡– •—…Š ▪• ò–Š‡ ˆ‹”‹• ’‘™ –‘ „‡ Ž‹„‡”▪Ž credit policy or the ’‘Ž‹…› †‹…–▪–‡• ’•‹–‹˜‡ ▪––‹––—†‡ –‘™▪”†• ‡’Ž‘›‡‡•óä

3.5 Integration and Relationship of Policies to Objectives

Policies are general statements specifying how objectives are to be accomplished; they stem †‹”‡…–Ž› ˆ”‘ ‘”‰▪• ‹•▪–‹‘ï• ‘„Œ‡…–‹˜‡• ▪• † …▪• „‡ ‘ „‡––‡” –Š▪• –Š‡ ‘„Œ‡…–‹˜‡• •‡–ä
Organisational objectives and policies are not mutually exclusive components of the management process. Rather, the relationship between policy and objective is that they are highly interdependent and inseparable. The two are interlocked and interrelated; and while objective defines standard of what the organisation should accomplish, policy directs action towards the attainment of the standard set by the objective.
It is not possible to attain objectives without knowing the policy guidelines that must be followed. Similarly, strategies cannot be determined without first knowing the objectives to be pursued and the policies to be followed. Rogers (1973) provided the basis for the above analogy which demonstrates the interdependence among objectives, policies and strategies.

Figure 3.2 Relationships between Objectives, Policies and Strategies

Source: Rogers, D.C.D. (1973). Corporate Strategy and Long Range Planning, Ann Arbor Mich, The Landis Press, p. 18.

The above sketch indicates a situation where the boat is going up a river. The surrounding terrains represent the organisational purpose, and the surroundings terrains that influence the general flow and direction of the river. The primary objective is the harbour or stopping point of some distance up the river to be reached by a certain time. Organisational objectives and other subordinate goals and plans can be represented by other milestones „‡–™‡‡• –Š‡ „‘▪–ï• ’”‡•‡• – position and the harbour. Policies are the river bank that directs and guides the boat towards the harbour. Like the river bank, policies remain effect, after the primary objectives had been reached. They are independent of time and must be reviewed as to acceptability and consistency whenever objectives are set. By a indications, it has been established that policies and objectives are related and that one leads to another. Policies serve as guide that provide direction and vision to manager decision making. With articulated and purposive policies, managers can make decisions ™‹–Š •‘�‡ ▪••—”▪• …‡ –Š▪– –Š‡ †‡…‹•‹‘�• ▪”‡ Ž‹�‡Ž› –‘ • ▪• ‡ –Š‡ ‘”‰▪• ‹•▪–‹‘�ï• co objective realizable within the stipulated time.

Self Assessment Exercise 3.4

1. What is the relationship between objectives, policies and strategies?
2. State the uses of policies and explain them.

Policy
Goal Goal
Objective Objective Objective Objective
[redacted]trategy
trategy
trategy
trategy
trategy
trategy
trategy
trategy
trategy
trategy
trategy
trategy

3.6 Management Policy Areas

Management policy areas are very extensive; some of the specified principal areas are as discussed below:

Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.

Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.

Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.

Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.

Training and Development: This category of policies are formulated to guide the top management in providing programmes designed to meet organisation needs, individual needs an career requirements of managers and employees.

Incentive: This involves developing appropriate incentives to motivate employees and managers alike in order to ensure efficient performance.

Public Relations: The policy here guides in providing adequate and appropriate attention to public attitudes and reactions to policies and practices of the organisation.

Political Action: This policy expresses the position or attitude of the organisation on political issues and events. Policy statement in this regard may restrain employees from talking to the press on political issues or even discuss political matters within th organisation.

3.7 The Role of Workers in Policy Formulation

The concept of workers participation in management policy formulation has always been controversial. The principal perspectives in which workers participation in management policymay be seen as:

(i) Workers participation is viewed as a means of advancing the interest of workers;

(ii) Workers participation is a way of distributing power within the enterprise more equally and in handling conflicts of interest by democratic procedure otherwise known as industrial democracy.

(iii) By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.

(iv) Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

4.0 CONCLUSION

From the discussions in this unit, it can be deduced that every organization, whether business or non-business, requires a policy as a decision rule to guide the activities and performance of the business to eventually achieve goals and objective of the organization.

5.0 SUMMARY

In this unit, we have, described how policies are formulated; listed the types of Policy; enumerated the reasons for formulating policies; highlighted the uses of polices for management effectiveness; explained how policies are integrated in relation to objectives; itemized management policy areas andstated the role of workers in policy formulation.

In the next unit, you will be introduced to yet another topic known as organisation policies.

6.0 TUTOR MARKED ASSIGNMENT

(1) Discuss extensively the relationship between policy and objectives.

(2) Identify the various areas in which policies can be directed or addressed in an organisation.

7.0 REFERENCES/FURTHER READING

Gomez-Mejia, L. R., Balkin, D.B. & Cardy, R. L (2005) *Management _ People, Performance, Change* New York McGraw-Hill Companies

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UNIT 15 THE CONCEPT AND FIELD OF PUBLIC POLICY ANALYSIS

CONTENTS

1.0 INTRODCUTION

According to Olaniyi (1998:13) Public Policy Analysis is a field of study that has its meaning enriched by two separate terminologies - namely: "Public Policy" and Analysis. Thus, any attempt at understanding the field must first explain the two concepts separately before their integration.

2.0 OBJECTIVES

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

· to know the definition of Public Policy
· to understand We features of Public Policy
· the meaning of Policy Analysis.

3.0 MAIN CONTENT

3.1 Definition of Public Policy

A policy can refer to a proposal, of a programmed, major decision or the refusal to make certain decision. (Sharkanskv: 1978:7)

In other words, policy is simply actions taken or to be taken by government or private organisation. (Ikelegbe: 1996.1)

A policy option made by an individual is known as "private policy" because it affects th person alone and no any other person. (Olaniyi: 1998:13)

H‘™‡˜‡”á òP—„Ž‹… P‘Ž‹…›óä

Emanates from the 'public sector' including both the institutions of central and local government and state created agencies such as water or health authorities, commission and corporations- it may be implemented through and directed at a wide variety of individuals and organisations which may or may not be part of the state apparatus and which may be to a greater or lesser degree independent of state influence or control. (Barrett and Fudge: 1981.V)

Chandlier and Plano (1988:107) defined Public Policy "as the strategic use of resources to alleviate n7.1"iorlH problems or government concerns". Similarly, Dimock, et al (1983:40)

described Public Policy as deciding at anytime or place what objectives and substantive measures should be chosen in order to deal with a particular problem issue or innovation.
It also includes the reasons they should be chosen.

SELF-ASSESSMENT EXERCISE 1

Define Public Policy.

3.2 The Features of Public Policy

The main features of a policy is that, first, it involves a choice. It is an important choice or a critical or important decision taken by individuals, groups or organisations. Therefore, there has to be several policy alternatives and policy formation involves the development of several policy alternatives and the choice of an alternative.
Second, polices are proposed courses of actions or projected set of decisions. Policies are prospective or are statements of future actions.
Policies states what is going to be done or would be done. It outlines a course contemplated or desired action in relation to certain desired objects or events in the real world.
Third, a policy is goal oriented. It is directed at the attainment of certain end states or objectives. A policy has certain purposes or intention. Fourth, policies have to do with particular problems or problems areas.
They are not abstracts, but rather relate to and are actually responses to the challenges and pressures arising from an environment. Furthermore, policies are designed and targeted at dissolving existing or future problems or satisfying certain needs.
Finally, a policy is a course setting action. It provides the direction, the guide and the way to the achievement of certain goals. It provides the frame within, which present and future actions are undertaken. It is a major guideline for action. (Ikelegbe 996:2-3).

3.3 The Meaning of Policy Analysis

Policy analysis is defined as a set of techniques that seeks to answer the question of what the probable effect of a policy will be before they actually occur' (Shafritz 1986:409). This refers to a "before the fact" analysis of Public Policies. However, the term is also used many to refer to both before bind after the fact analyses of Public Policies. But a Analysis undertaken on a programme that is already in effect is more properly called a ò’”‘‰”▪• • ‡ ‡˜▪Ž—▪–‹‘óä _Š▪ˆ”‹–œ s{zwã vsr_ä
All Policy analysis involves the application of systematic research techniques most of which are borrowed in other disciplines.
Similarly, Chanlder and Plano explained Policy Analysis as:

An attempt to measure organizational effectiveness through an examination and evaluation of the qualitative impact of an agency program. Policy analysis is a systematic and data based alternative to intuitive judgments about the effects of policy or policy options. It is used
(1) for problems assessment and monitoring,
(2) as a "before the fact" decision tool, and
(3) for evaluation. (Olaniyi: 1998:17).

Furthermore, Roberts and Edwards (1991:98) argued that Policy Analysis is the study of the formation, implementation and evaluation and evaluation of public policy, the values of policy makers and environment of the policymaking system and the cost of policy alternatives.

Finally, policy analysis may be used, in a secondary usage, as a term to describe the detail examination of a particular policymaking system at any and/or all the stages of policymaking process.

SELF-ASSESSMENT EXERCISE 2

What is policy analysis?

4.0 CONCLUSION

The study of Public Policy Analysis is necessary to all public and private citizens for better understanding of government decision and programmes. Better knowledge of public policies helps in reducing.

5.0 SUMMARY

The unit discussed the conceptualization of Public Policy and its characteristics. In addition, the meaning of policy analysis was also analysed to enhance your understanding of Public Policy Analysis.

ANSWER TO SELF-ASSESSMENT EXERCISE 1

Public policy can be defined as actions taken or to be taken and actions not taken or not to be taken by government.

ANSWER TO SELF-ASSESSMENT EXERCISE 2

Policy Analysis is a set of techniques that seeks to answer the question of what t probable effect of a policy will be before they actually occur.

6.0 TUTOR-MARKED ASSIGNMENT

Public Policies are more than decision-making expatiate

7.0 REFERENCES/FURTHER READING

Barrett, S. and Fudge C. (eds). *Policy and Action Essays on the Implementation of Public Policy*. London and New York: Methuen.

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UNIT 16 THE USES AND TYPES OF PUBLIC POLICES

CONTENTS

1.0 INTRODUCTION

Public Policy Analysis can be said to drive its importance and relevance in its contribution to the determination, study and assessment of public problems; policy making, policy performance, impact evaluation, policy prediction and advocacy, policy forecast, prediction and anticipation. (Ikelegbe: 1996:8)

Public policies have classified on the basis of several criteria. This unit discusses uses and types of public policies.

2.0 OBJECTIVES

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

· understand uses of public policies
· identify types of public policies
· know distributive and Regulation policies
· differentiate between redistribute and fundamental policies
· explain major, functional, mega and meta policies.

3.0 MAIN CONTEXT

3.1 The Uses of Public Policy Analysis

Public policy Analysis is a systematic activity and process, which involves the determination and delineation of pertinent public problems and issues. The following are uses of Public Policy Analysis.

i. It involves the ascertaining of public problems;
ii. It is the definition of public problems in precise and perhaps quantifiable terms;
iii. Public Policy Analysis is the study of such problems and issues;
iv. It is in the monitoring of such problems through the provision of statistical and othe information on the state of problems; and
v. Policy analysis provides a base for determine strategies for the resolution of public problems (lkelegbe: 1996:8)

Therefore, policy analysis is a problem solving discipline; which encompasses methods, techniques and more precisely, a scientific approach to public problem resolution. (Dye: 1978:3)

SELF-ASSESSMENT EXERCISE 1

Mention 3 uses of Public Policy Analysis.

3.2 Types of Public Policies

Theodore Lowi (1964:677) classified policies into distributive, regulatory and Redistributive on the basis of intent operating processes, issues and clientele. Similarly, McKinney and Howard, (1979:73) categorises policies in terms of their hierarchy or levels such as fundamental, major, functional policies furthermore, Dror (1973:18) identified two types of policies. All these policies are discussed in this unit for your understanding.

3.2.1 Distributive Policies

These are types of policies, which involve incremental dispersal, unit to different segments of the population and to individuals and institutions.

They can be the actual favours, benefits or patronage policies that are dispensed to a small number of people. This dispersal is continual and those not favoured at one point, may be favoured at another time.

However, the nature of distributive polices is that recipients and losers do not come int direct confrontation. Although potential beneficiaries seek required favours, they do not often oppose or interfere with favours to others. Examples of distributive policies are those that relate to public

land, tariff, orts, etc.

3.2.2 Regulatory Policies

They are policies, which refer to law or policy outputs that regulate distribution, practices, actions and activities. These are policies, which relate to directions, rules and frameworks on activities in various areas such as business, commerce, agriculture, transportation, etc.

Their impact is either increases in costs or restrictions or expansion of activities and alternatives to private individuals organizations Examples are NAFDAC and Standard Organisations.

3.2.3 Redistributive Polices

These are policies, which relate to relations between or among classes or categories of the population. They benefit particular segments or category of the population, such as the unemployed, homeless, the poor, the retired, etc. Their target and impact normally large scale or broad. They are largely discriminatory to the disadvantages and advantages, working or retired, etc. They relate particularly to transfer of resources among large groups or classes (Anderson, 1975:58). Examples of distributive policies are social welfare programmes and some educational and tax policies.

3.2.4 Fundamental Policies

These are policies derived from the constitution; hence they are based on constitu provisions or judicial interpretations of the constitution. Such policies can only be changed or abolished by constitutional amendment and are characterized by large size, high importance and long tenure.

SELF-ASSESSMENT EXERCISE 2

What is a Redistributive Policy?

3.2.5 Major Polices

Major policy is based on legislature enactment made by the highest legislative bodies a varying levels of government. They are either in the form of laws or programmes. Major policies are therefore important and backed by the highest legislative bodies. They could be regarded as general policies, stating broad outlines and frameworks.

3.2.6 Functional Polices

They emanate largely from the executive branch but could also emanate from decision and resolution set by legislatures and the courts. They are actually minor policies that relate to regulations and guidelines. They could also be administrative decision that are made in the process of implementing or administering public policy programmes overtime and indifferent situation and circumstances. They are therefore functional and operational policies.

3.2.7 Mega Policy

It is a policy that constitutes a framework for other, which usually are minor or secondary policies. Mega policy is a master policy within which and by, which some other policies within a specific policy issue or area are made. It provides the guide, the direction and the major assumptions and goals for other policies. Mega policies dictate the pace of more specific policies in relation to scope, time, levels of change and orientation.

3.2.8 Meta Policy

It is a policy that relates to policy making. Its attention and goal is on how to make other policies and particularly how to make better policies. Meta policy is concerned with the mode of policy and the system within, which public policy is made. It relates to policies on the process, guides, techniques, methods, requirements and characteristics of policy-making system. It is concerned with the design and redesign of policy-making systems in terms of structure, procedures, patterns; outputs level, models, methods, components, personnel and requirement. The goal of Meta Policies is to influence positively or improve policymaking systems and thus policy making. (Ikelegbe: 1996:18-19)

4.0 CONCLUSION

The analyses of uses and types of Public Policies in this unit have educated you more public policy analysis. The effort was geared to make you a good public policy analyst.

5.0 SUMMARY

In this unit, you were given the uses and types of public, monitoring problems, amon others. Furthermore, the types of public policies discussed in this unit are distributive, regulatory, redistributive, fundamental, major, functional, mega and meta policies. It is hoped that you have understood them but try to revise regularly.

ANSWER TO SELF-ASSESSMENT EXERCISE 1

- Ascertaining public problems
- Definition of public problems precisely
- Provides a base for determine strategies for resolution of public problems

ANSWER TO SELF-ASSESSMENT EXERCISE 2

Redistributive policy is a policy that relates to relations between or among classes or categories of the population such as the unemployed, homeless, the poor, the retired, etc.

6.0 TUTOR-MARKED ASSIGNMENT

Differentiate between Mega and Meta Policies.

7.0 REFERENCES/FURTHER READING

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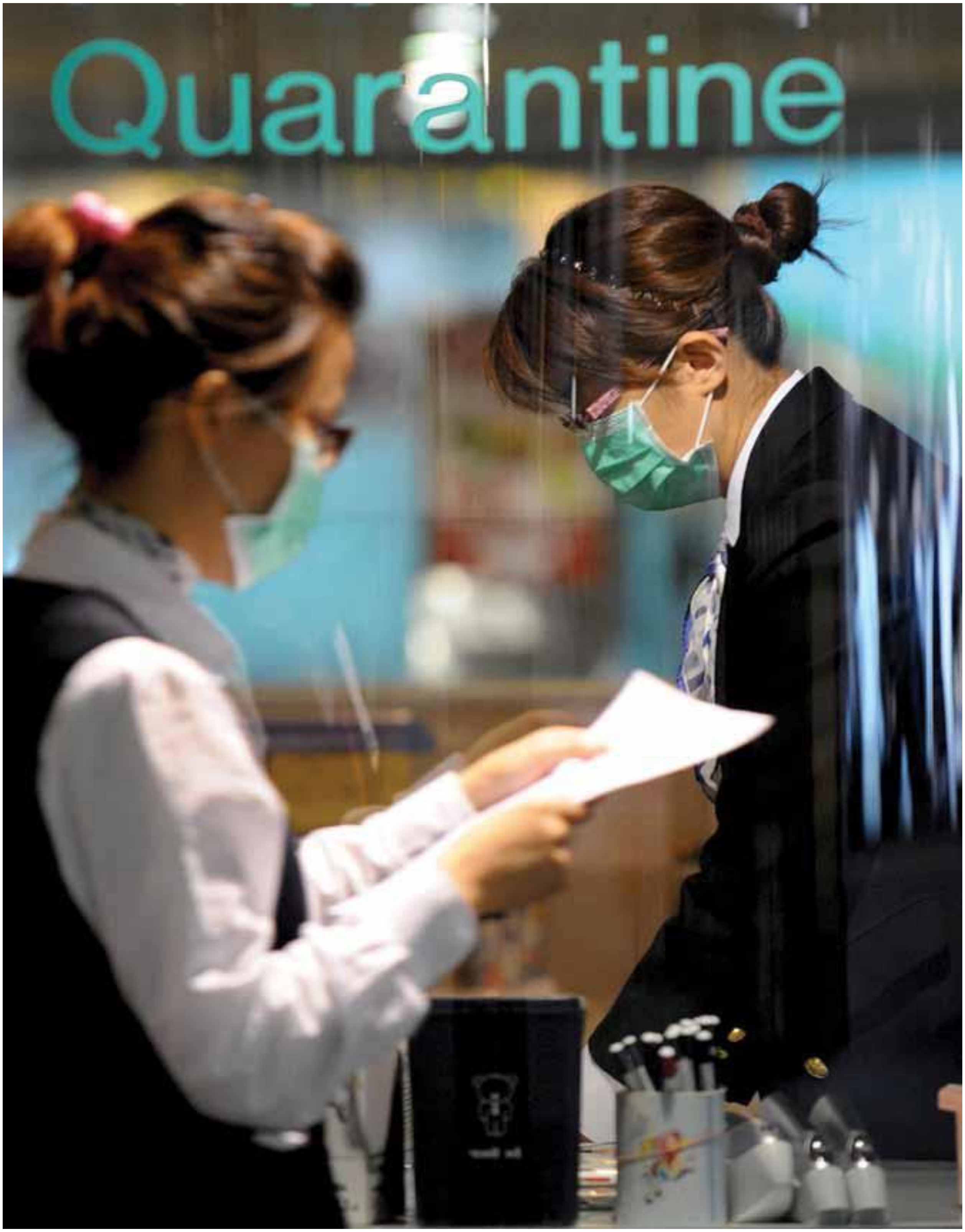
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