ADVANCED LEVEL BUSINESS STUDIES NOTES

BUSINESS AND THE ENVIRONMENT

Business

- A business is an organisation or economic unit were goods and services are

#exchanged for one another or for money

- Business organisations require resources for them to be able to achieve their aims
- All businesses are formed for a reason; the reason why they are formed is termed the aim. In other words aims are that what the business organisation seeks to achieve

The need for business activity

The role played by the business organisations in the society and the economy at large can be classified as follows

- Business activities contribute positively to the living standards of the society by providing goods and services required to satisfy consumers needs and wants
- Business activities facilitate the efficient utilisation of economic resources e.g. land & labour. These are utilised for the partial benefit of the society at large e.g. the use of the Victoria falls for tourism purposes has increased the economic activities in the town, thus improving the living standards
- Business activities facilitate the specialisation of economic efforts, whereby economic players specialise in the production of goods and services which they have an comparative advantage over others and then trade their produce with others e.g. semi arid regions in Zimbabwe produce sorghum and trade it. The business activities enable people in semi arid regions to buy maize thus making them better off

The problem of scarcity of resources

- Businesses require economic resources for them to be able to produce goods and services
- It is a fact that these resources are limited in supply e.g. a business manager has to make use of the resources availed to him/her by the owners. It means a business with $20 000 as its capital cannot afford to acquire equipment costing $120 000 with its available resources
- The basic economic problem of scarcity is partially addressed by choosing the best alternative amongst the competing uses
- Management must choose an option which maximises the long term benefits to the business under the constrained

circumstances

Levels of business activity

Business activities can be classified into three categories as follows:

Primary

- Primary business activities take out goods which are already provided by nature e.g. agriculture, mining and fishing
- Usually output from primary business activities requires further processing before it can be distributed to the finished goods market e.g. maize meal is a product of maize after it has been further processed by grain millers

Secondary

- These business activities include manufacturing and the construction industry
- Manufactures use output from the primary business activities and other businesses in the secondary level as raw materials, e.g. a manufacturer of powder milk uses milk from the primary sector together with artificial sugars obtained from other manufacturers operating at secondary level
- Manufacturing business activities add value to the products obtained from the primary level

Tertiary

- These provide services to consumers and other businesses e.g. banks, hotels, retailing, telecommunications and insurance, e.t.c.
- Firms in the tertiary level of production provide supplementary services to all economic players e.g. transport companies
- facilitate the movement of goods and services that making business easier to conduct

Inter relationship between levels of business activity

- The three levels of business activity highly depend on each other for them to prosper
- The output from the primary sector provides raw materials to the businesses operating at the secondary level, this provides the secondary producers with inputs to use in the production process
- Secondary producers act as a ready market for goods produced by primary producers e.g. Dairiboard Zimbabwe ltd purchases raw milk of acceptable quality from farmers for processing
- The tertiary level provides support services to all sectors e.g. banks provide loan capital and financial advice to all businesses in the economy regardless of the level they operate at
- To sum up, there is massive inter dependence of the three levels as it has been established that inter dependence is both vertical [depending on businesses which operate at a level other than that which your own business operate e.g. farmer & grain miller] and horizontal [depending on the activities of a business operating at the same level e.g. grain miller and packaging plastic manufacturer

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SECTORS OF THE ECONOMY

- Mixed economies like Zimbabwe have to major categories in which businesses can be classified into. These are private sector and the public sector

Public sector

- This sector of the economy is made up of organisations owned and operated by the national government and local government bodies i.e. councils and municipalities
- Examples include public hospitals (e.g. Harare & Parirenyatwa hospital), municipal clinics & hospitals (e.g. Wilkins hospital & Glen Norah satellite clinic), parastatals (e.g. G.M.B.; N.R.Z.; Z.M.D.C.; Z.I.N.A.R.A.; Z.I.M.R.A; N.S.S.A; e.t.c.
- The public sector exists primarily to create better and affordable service to the citizens
- They usually embark on business activities considered unprofitable by private entrepreneurs e.g. providing public goods like public toilets and constructing street lights
- They also engage in activities considered to be strategic for social and economic stability e.g. security services (e.g. Army, Police & Prisons) including the manufacture of ammunition (e.g. Z.D.I). The R.B.Z. is owned by the state for economic strategic reasons
- Businesses are funded by the Government in part or in full

Private sector

- It refers to the segment of the economy that is owned and run by private entrepreneurs
- It is comprised by organisations that operate in pursuit of profit, therefore it only provides goods and services to people who can afford them
- The private investors fund their business activities by issuing capital instruments (e.g. Shares and debentures) and from borrowings e.g. loans

- Examples of private sector businesses are

companies (e.g. Econet Zimbabwe, Barclays bank and Nyaradzo life Assurance)

LEGAL STRUCTURE OF BUSINESS ORGANISATIONS

After deciding on business activities to engage in it is important for the entrepreneur to decide on the legal structure that the business is going to take because each structure has its own pros & cons. This requires the entrepreneur to choose the best trade off between the risks and benefits of being associated with such a structure. The maximum risk that an investor is willing to accept is termed risk appetite. The legal structure of any organisation defines ownership, control and distribution of earnings.

- The various legal structures include sole traders, partnerships, cooperatives and limited companies.

Sole trader

- These business organisations are owned by one individual who provides the permanent finance (equity capital) of the business and in turn enjoys all the profits.
- The entrepreneur participates in the day to day management of the business i.e. there is no divorce (separation) of ownership and control
- The law does not recognise the sole trader business as a separate entity i.e. the owner and the business are treated as a unit therefore a business cannot borrow or sue (take legal action) in its own name
- Sole trader businesses have unlimited liability i.e. the investor can be held personally liable for the debts of the business and the business assets can be attached for the liabilities of the owner
- Sole trader businesses are usually small in size partially because the owners prefer them to remain like that so as to maintain control, since the risk of personal liability is always prevalent

Merits

- It is relatively easy to start a sole trader business because no legal formalities are required to form a sole trader business
- The sole trader has full control of the business activities and is not accountable (answerable) to anyone. This makes decision making faster than in other business structures. [However, the quality of decisions is questionable coz of lack of consultation]
- The sole trader enjoys all the profits generated by the business [however, the return on investment for sole traders is generally low]
- Flexible in its operations e.g. operating hours and credit policy. [However, flexibility needs to be balanced with consistency]
- The small size of the entity enables the owner to establish good relations with staff, customers and the society at large.

This assists in marketing the business as the society develops a positive attitude towards the business activities.

Demerits

- The risk of unlimited liability exposes the owners' private property to the risk of being attached for the liabilities of the business. This partially explains why sole traders are generally risk averse (low risk appetite)
- High risk of succumbing to competition from larger firms who enjoy economies of scale and are managed by professional who can take increased portions of calculated risk (risk varies directly with return/profit)
- The quality of decisions made depends mainly on the sole traders' ability to make quality decisions. The fact that consultation lacks in sole trader businesses may compromise the quality of decisions made. The owner may end up making decisions he/she is not good at making and this may cost the business in future e.g. taxation decisions can be

viewed by authorities as attempts to evade paying taxes

- The business cannot be separated from its owner that means the business lacks continuity in the event of the death of the owner
- The business lacks separate legal status i.e. it is difficult to conduct business on behalf of the owner if need arises e.g. illness or inability
- Sole trader businesses are usually undercapitalised because one individual is expected to fund the business operations

Partnership

- These are business owned by between two to twenty individuals with the exception of professional partnerships (e.g. lawyers and accountants) who can exceed twenty
- Individual investors in a partnership business are called partners
- The partners provide equity capital to the partnership and in return share the profits generated by the business. They usually share the duties involved in the management of the partnership (specialisation)
- They are formed as a solution to overcoming the challenges faced by sole traders e.g. to raise more capital & improve quality of decisions made through consultation & specialisation
- The partners generally have unlimited liability
- The partners conduct of the business is governed by the partnership deed though it is not a legal requirement
- The deed states issues to do with the capital contributions by each partner, voting rights of partners, the distribution of profits & losses, the duties of each partner in management, who is authorised to contract on behalf of the business

Merits

- Partnership businesses enjoy better quality decisions as partners can specialise in areas they are better skilled to manage (e.g. finance, marketing, HRM) and the partners can consult with each other thus improving the quality (compared to sole trader businesses)
- Partnerships are able to raise more capital as compared to sole trader businesses. This partially explains why partnerships generally have a higher return on capital compared to Sole traders (Synergy)
- There are fewer formalities involved in the formation of a partnership businesses (compared to companies)
- Business risk is spread amongst partners e.g. in the event that the business makes some losses the loss is shared by all partners. This increases the risk appetite of the partnership business in general

Demerits

- The partners face unlimited liability to the extent that the business can be held liable for the debts of one partner. This is because the business is not viewed as a separate entity by the law
- The business lacks continuity i.e. in the event of death, retirement or incapacity of one partner the partnership is dissolved.

This adversely affects the consistency of business operations

- All partners are bound by the decisions made by one partner, this is risky on behalf of the partners as there is potential to suffer losses due to decisions made by others
- Potential for conflicts as the partners are bound to have different opinions on issues to do with the running of the business. However, conflict (functional) is important ingredient in the making of quality business decisions

- The partners are expected to consult each other before decisions are made and this delays the decision making process
- Partners lack independence when compared to Sole traders since a partner is not expected to single handedly make business decisions

Limited liability companies

- Companies are owned by private individuals who are called shareholders
- The equity capital of a company (e.g. $100 000) is divided into smaller units (e.g. 100 000 units of $1 each) called shares
- Company shareholders enjoy limited liability i.e. the liability of shareholders is limited to the amount of capital they have injected into the company. Therefore beyond that no personal liability is suffered for the debts of the company. This transfers the risk from shareholders to creditors
- Companies are required to put the letters Ltd or include the word limited as a warning to stakeholders who intend to do business with the company that the liability of the shareholders is limited

Legal personality

- Companies have separate legal personality which is different from its owners i.e. a company has a separate name, it can sue and be sued in its own name, it can acquire its own assets and it can conclude contracts on its behalf
- The control of companies is divorced from ownership, this implies that shareholders do not participate in the day to day management of the company
- Shareholders appoint directors who are entrusted with the day to day management of the company
- The relationship between directors and shareholders is an agent to principal relationship [this gives rise to the agency problem]
- It is important to separate ownership and control because companies are bigger organisations compared to partnerships and sole traders all shareholders cannot participate in the day to day management of the business coz it may cause confusion
- Because a company exists separately from its owners it can survive beyond its owners' life time. The company is said to have ***perpetual existence*** (can exist forever)
- The shareholders votes are on pro rata basis implying that the more shares one has the more voting rights one has (One share one vote)

TYPES OF COMPANIES

Companies can be classified into two categories i.e. private limited and public limited companies

Private limited companies

These companies have the following characteristics over and above the ones mentioned above

Restrictions in the transfer of shares

- The sale or transfer of shares must first be offered to existing shareholders and if offered to outsiders it must be authorised by existing shareholders. This move is meant to protect the company from hostile takeovers. This also helps the existing shareholders to retain control of the business activities
- The shares for private limited companies cannot be traded on the stock exchange market. This adversely affects the liquidity of investments in private limited companies as it is more difficult to sell off stock from private companies than that from public limited companies.
- The number of shareholders for private limited companies is limited i.e. it cannot exceed 50.

- They are not permitted to issue shares to the members of the general public, this is a drawback in the raising of capital. However, the costs and formalities of issuing capital instruments are fewer
- These companies are required to send copies of their financial statements to the registrar of companies

Merits of Private limited Companies

- Restrictions in the transfer of shares enable the existing owners (founding members) to retain control of the business

Demerits of Private limited companies

- The company is not permitted to issue shares to the members of the public this makes it a challenge for companies to raise additional capital and for existing shareholders to transfer their shares
- Less privacy as the companies are required to send copies of financial statements to the registrar of companies. These are available for inspection by the members of the public

Public limited companies

- These companies are permitted to sell shares to the members of the general public
- There are no restrictions on the transfer of shares between shareholders i.e. the shares are tradable on the Zimbabwe Stock Exchange e.g. Econet Zimbabwe Ltd & Old mutual Ltd
- The issue of shares to members of the public is governed by strict regulations
- They are required to publish their audited financial statements (in newspapers) this gives potential investors information about the profitability, liquidity and the financial position of the business they are about to commit their resources to.

Merits

- Public limited companies are in a better position to raise additional capital than any other business organisation because they can issue shares to the members of the general public
- The shares from public limited companies are more liquid than those from private companies' i.e. there are no restrictions governing the transfer of second hand shares e.g. they can be sold at the stock exchange market

Demerits

- The share prices are dependent on the market forces which makes them highly volatile. This is usually beyond the control of management. This worries managers because the share prices are used as a signal of the companies' value/performance, but management has no direct control over the shares' market price
- The availability of shares on the stock exchange market exposes the company to the risk of hostile takeover since existing shareholders have no control over who buys the shares on the stock exchange
- The publication of financial statements provides information which can be used against the company by external stakeholders e.g. competitors and individuals and corporate taking legal action against the company
- The actions of the directors are greatly influenced by short term objectives of major shareholders. This is partly explained by the fact that companies are autonomous democracies therefore major shareholders have a bigger say on the appointment of directors therefore the short term interests of major shareholders prevail over those of minority shareholders

Advantages of limited liability companies

1. Shareholders enjoy limited liability, this increases the risk appetite of limited liability companies thus improving their profits
2. Separation of ownership and control enables the business activities to be run by professionals as opposed to the

owners who might lack the capacity and skill

3. Companies have perpetual existence i.e. they outlive their owners. No need to dissolve a company in the event of death of a shareholder
4. Companies are able to raise more capital than partnerships and sole traders

Disadvantages of limited liability companies

1. There are legal formalities that are involved in the formation of a company. These consume time and resources
2. Owners (shareholders) delegate the management of the company to Directors, this poses a challenge as conflict of interests can emerge as the interests of directors are not congruent to the interests of the shareholders. This is termed the agency problem.

Cooperatives

Cooperatives are jointly owned enterprises engaging in business activities for the mutual benefit of its members. These business organisations are owned and run by a number of individuals termed members. Cooperatives have the following features:

- All members contribute to the running of the business by sharing the workload, responsibilities and all members participate in the decision making process
- The decision making process involves voting and each member carries one vote
- Larger cooperatives can employ professional managers to run the cooperative activities on behalf of the members
- Profits are distributed equally amongst the members
- Most cooperatives are initially formed to serve the interest of the members as opposed to making profits e.g. agricultural cooperatives serve the interests of the farmers

Merits of Cooperative business organisations

1. Benefits of buying in bulk are enjoyed e.g. quantity discounts and benefits of transporting bulky quantities
2. Enables members to work together in finding solutions to common problems e.g. housing cooperatives seek to address the problem of accommodation
3. The equal distribution of profits motivates members as the principle of equity is upheld
4. The members enjoy limited liability

Demerits of Cooperative business organisation

1. Cooperatives usually face problems in raising capital as each member is expected to contribute. On the other hand the equal distribution of profits does not motivate members to contribute more than others.
2. The decision making process is consultative and this may be time consuming. The situation is worsened if the number of members increases
3. The quality of the decisions is not guaranteed as the majority is not always right. The voting process may make wrong decisions. It is common that members are influenced to follow the ideas of charismatic members of the organisation.

State owned enterprises

- State owned enterprises are businesses which are funded by the government from public funds. These are the business organisations which constitute the public sector of the economy.
- Make reference to notes on the public sector

Merits of state owned enterprises

1. They provide socially desired goods and services which are considered to be unprofitable by private sector players e.g. public and merit goods
2. Lack of profit motive enables the goods and services provided by state owned enterprises to be affordable e.g. N.R.Z.

charges are more than 50% cheaper than road transport charges, ZIMPOST V SWIFT, ZBH V DSTV, etc. This improves the living standards as the more citizens can afford the services.

3. They are in a better position to raise capital as they are funded from public funds, e.g. G.M.B. management receive funding from the finance ministry

Demerits of state owned enterprises

1. Public institutions are criticised mainly because they are said to be inefficient in their operations. The lack of the profit motive makes the assessment of the performance of these institutions a challenge. Management has no incentive to cut operational costs e.g. some public institutions which were making losses made headlines of paying very high remuneration to management.
2. The funding of public institutions from public funds puts pressure on the fiscus. This directly causes an increase in government resources which may prompt an increase in taxes e.g. the Zimbabwean government recently took over the debts of the R.B.Z. this has put an additional constrain on the national budget.
3. Most parastatals are monopolies i.e. they do not face any competition, this scenario partially explains why the quality of their service is poor. Competition improves efficiency e.g. the introduction of new private radio stations.
4. Poor corporate governance ethics are prevalent in most state owned enterprises with allegations of corruption and incompetence by senior management making news headlines e.g. some senior managers from Air Zimbabwe have been convicted on corruption related charges.

PRIVATISATION

In light of the above captioned drawbacks of state owned enterprises, arguments have been brought forward to transfer ownership and control of these institutions from the government to private individuals. This process is termed privatisation. Privatisation is the transfer of assets from the public sector to the private sector.

Arguments for privatisation

1. Revenue raising

The sell of Government assets to private investors brings in revenue to the state.

This revenue can be used to fund other government operations

2. Cut on government expenditure

   Losses making state owned enterprises are a burden to the state as they require constant fresh funding from the state. This puts unnecessary burden to the taxpayers who fund the government. Therefore the disposal of non performing state assets will go a long way in bringing down the government expenditure.

3. Efficiency argument
   The profit motive improves efficiency as private firms try to control costs in an effort to maximise profits. The profit motive has a positive impact on the quality of service provided by the business organisations.
4. The failure by the state owned enterprises can be attributable to government interference for political reasons. Private firms are not held back by political pressures e.g. Z.D.I. has been included on the sanctions list by some European nations, this adversely affects the operations of the state owned enterprises
5. Transferring financial risk which taxpayers would suffer in the event of losses to private individuals

Arguments against privatisation

1. Assets can only be sold once

   The disposal of national resources to raise revenue is a ill advised move as the revenue is only for a short term benefit.

The government cannot raise any future revenue from the disposal of the same assets since the income is once off as opposed to revenue from dividends

2. Most state enterprises are natural monopolies and their privatisation translates to private monopolies which have the greater potential to exploit the consumers.
3. Privatisation is very difficult to reverse in the event that it proves to be self defeating. This implies that the consumers

face a risk of living permanently with the new privatised business.

4. The profit motive motivates private business players to combine the factors or production in a manner that minimises costs. The technological improvements are making capital cheaper and more efficient than labour thus motivating entrepreneurs to substitute labour for capital were applicable. This contributes to the levels of unemployment in the society.
5. State owned businesses are protected by the law from competition, although competition is said to improve efficiency in firms operations. Some levels of competition are wasteful as some resources are channelled to fund the competition could have been used in other productive ventures. Above all it is the consumer who bears the final burden through paying the price.

To sum up, the arguments for and against privatisation vary their weight from one business organisation to the other depending on the nature of the business activities. It is unrealistic to privatise some organisations e.g. security services like army and police, however commercial enterprises like transport activities can be privatised successfully with minimal adverse consequences.

SIZE & GROWTH OF FIRMS

ASSESSING THE SIZE OF A FIRM

It can be observed in the economy that some business organisations are bigger than others e.g. Mohamed Mussa Wholesalers and a local tuck shop. This shows that business organisations vary in size. There is no objective way to measure the size of a business organisation but the following factors are considered in assessing the size of the firm.

1. Number of employees:

This method assumes that the more employees the organisation employs the bigger the business is said to be e.g. if OK supermarket employs more employees more staff than Spar supermarket, it means OK supermarket is bigger than Spar supermarket. The application of this method is limited by the fact that some businesses are capital intensive while others are capital intensive; it is biased in favour of labour intensive organisations

2. Capital employed:

Capital employed is the total value of long term capital invested in a business organisation. It includes the funds provided by the owners of the business (equity capital) and long term borrowings e.g. loans and debentures. The more the capital that is invested in a business the bigger the organisations' size. Businesses with greater capital employed have more assets to its name because the capital employed is used to finance the acquisition of assets. This implies that it is justifiable to use the level of capital invested to assess the size of an entity. This method is however biased against labour intensive organisations.

3. Market share:

This estimates the proportion of the total market serviced by a business organisation. It can be estimated by the formula

$$h = \frac{\text{Total business sales}}{\text{Total industry sales}} \times 100$$

The greater the market shares the bigger the size of the firm. This method is fair on both capital and labour intensive businesses; however this method is difficult to apply in instances where the market size is small and in instances where the business produces a number of products for distribution in different markets.

4. Market capitalisation

This is the market value of all the shares issued by the firms. It is computed by the formula

$$= \qquad h$$
$$\times \qquad\qquad h$$

The higher the market capitalisation value the bigger the size of a firm. This method is effective in comparing firms of different orientations but it can only be applied to public limited companies whose capital instruments are tradable in competitive markets

To sum up, there is no any objective way that is acceptable in all scenarios but the methods applied are subjective in nature thus the methods discussed above should be treated as compliments not substitutes. The more the methods used in assessing the firms' the more reliable the results will be.

BUSINESS GROWTH

The growth objective is one of the most common business objectives that most entrepreneurs pursue. Many big businesses started small and grew with time. The ability of a business to grow is dependent mainly on the ability of management to adopt the correct strategy which enables the business to grow and to sustain it. Businesses can grow either internally or externally.

INTERNAL/ ORGANIC GROWTH

- It is growth within the organisation financed by internal resources
- It involves expansion by means of opening new branches e.g. Chicken slice has been opening new outlets countrywide or introducing new product lines e.g. delta beverages added Super Chibuku and Shumba Mahewu to its product portfolio in 2014
- It is focussed on improving efficiency in the business operations by hiring quality personnel, developing new products and venturing into new markets

EXTERNAL GROWTH

- It is the growth of a business organisation by acquiring other entities, as opposed to expanding existing sales or products e.g. mergers and acquisitions.
- External growth is also referred to as integration as it involves the joining of two or more firms, it takes different forms of integration which are horizontal, lateral, vertical and merger

HORIZONTAL INTEGRATION

This involves the merging of firms operating in the same industry and at the same stage of production, e.g. if Dorking Dairies ltd merges with Dairiboard Zimbabwe Ltd.

Merits

- The business enjoys reduced competition as one competitor is eliminated, this benefits shareholders as there is greater potential for better profits. It is important to note that some excessive levels of competition are disadvantageous to most stakeholders.
- The new entity is definitely bigger this places it in a better position to benefit economies of scale, these can be passed on to consumers through lower prices.
- The new entity benefits from the synergy rule as the combined entity is more likely to make higher returns on investments than the previous institutions

Demerits

- The reduction of competition on the market makes a contribution towards the exploitation of consumers. Such integrations if not well regulated may result in monopolies which are not good for the consumers.
- The sovereignty of consumers is compromised on the market as they will have to choose from the restricted products e.g. if Bakers Inn and Lobels bakeries merge one

brand will become extinct thus reducing variety on the market.

- Mergers usually result in job losses and demotions as organisations seek to avoid duplication of tasks e.g. before the merger each business had its general manager but the combined entity requires only one general manager

VERTICAL INTEGRATION

This involves the integration of businesses operating in the same industry but at different levels of activity. Vertical integration can be either forward or backward.

FORWARD VERTICAL INTEGRATION

It involves the integration with a business in the same industry but a customer of the existing business e.g. a beef farmer acquires butchery.

Merits

- The business has direct control over the distribution and marketing of its products
- The outlet can exclusively market the firm's product by excluding competitor's products. This eliminates competition and enables the firm to store and handle the firm's product in the optimal way recommended by the producer.
- Consumers perceive products to be more affordable than those of competitors'.

Demerits

- The business may lack expertise to competitively run the new entity because being a successful manufacturer does not guarantee that one will succeed as a retailer.
- Lack of competition as a competitor products are withdrawn from the acquired outlet adversely impacts on consumer sovereignty i.e. consumers have limited options to choose from.

BACKWARD VERTICAL INTERGRATION

- It is the integration with a business in the same industry but a supplier of the existing business e.g. a steel manufacturer acquiring a iron ore mine

MERITS

1) Gives the business control over quality and delivery times of the suppliers, this allows the business cut on stockholding costs as minimal lead times apply. Lead time is the time that lapses between the placing of an order and its delivery.
2) The business has a guaranteed supply of products even in times where the products are in short supply.
3) The business may now have control of supplies of materials to competitors' e.g if Dairiboard Zimbabwe acquires a form which supplies raw milk to Dorking Dairies .This implies that the supply of materials for Dorking Dairies is now partly controlled by Dairiboard Zimbabwe.

Demerits

1) The business may lack expertise to manage the supplier business effectively e.g. a successful grain miller does not translate to a successful farmer .The technicalities involved in the administration .
2) The supplying business may become less competitive because it has a guaranteed market for its produce. It can end up becoming complacent due to lack of competition.
3) It becomes difficult to manage the two entities separately as problems usually exist in setting prices for the supplying entity. This is mainly attributable to the fact that all profits enjoyed by the supplying entity are costs to the customer entity.
4) Control over supplies to competitors may reduce competition thus adversely impacting on consumer sovereignty.

CONGLOMERATE INTERGRATION

- This is integration with a business in a different industry e.g. beverage manufacturing company acquiring a gold mine e.g. Econet Wireless acquire TN bank.

Merits

1. Diversification from the original business spreads the risk of business failure. A diversified business portfolio has less risk compared to relying on one business line.
2. Allows business to embark on better rewarding markets this allows business to re-strategise thus gives businesses an opportunity to abandon non performing portfolios in the long run.
3. Stability of returns to shareholders as risk is spread across more than one industry. Stability of returns improves job security which in turn motivates the workforce.

Demerits

1) Management may lack expertise and experience or running the acquired sector.

EFFECTS OF BUSINESS GROWTH

Growth has a number of effects to various stakeholders and the effects can be classified into positive and negative

1) Bigger firms enjoy economies of scale thus their operating costs are less than those of smaller entities. This can be translated to higher profits and
competitive prices

2) In forward vertical integration, the supplying entity cuts on selling and distribution expenditure as their produce has a ready market therefore need to incur advertising expenses.
3) All forms of external growth result in the formation of a bigger entity. This enables the new entity to enjoy the benefits of synergy. Synergy implies that a whole is greater the sum of its individual components (2+2=5). It is generally assured that the new entity will be more successful than the former separate entities.
4) Business growth requires substantial capital injection to fund the increased levels of activity. Funds are required to acquire additional equipment and to provide working capital. Expanding too rapid with inadequate working capital results in overtrading .This requires adequate planning of sources of funds to fund the expansion .However, relying on borrowings to find expansion adversely impacts on the gearing rate and increases long term financial commitments of the business.
5) Existing management may not be in possession of skills and experience to manage a bigger entity. The organisational structure may no longer be effective in the new organisation. This requires new management systems and training programmes for current management to enable them to cope with pressures of new structure.
6) The bigger structure of the business brings with it some risks of loses due to fraud and errors. This is partially attributed to the fact that the existing controls become obsolete as the business grows .This therefore requires management to be proactive in their approach to the handing of internal controls.

SIGNIFICANCE OF SMALL BUSINESS

Small businesses are entities which qualify to be classified as such by any measure of business size.

ADVANTAGES OF SMALL BUSINESS

1) Their small size enables them to quickly respond to the dynamic operating environment. Easily adapting to changes in the environment is beneficial to most stakeholders e.g. customers enjoy quality services and goods.
2) Small firms are flexible in their operations therefore they are in a better position to offer personalised services to their customers. This is mainly attributable to the short structure of the small business hierarchy as opposed to lager firms. Large firms rely strictly on protocols which have to be adhered to.
3) Employees in small firms are more likely to be motivated as small firms usually employ fewer employees who usually have good interpersonal relationships.

According to Maslow's hierarchy of needs good social relations on the workplace motivate employees and this positively impacts on productivity.

4) Small firms play a significant role in the distribution of goods and services. They service niche markets which are small markets deemed unprofitable by large businesses. For instance most growth point business centres are characterised by small business organisations. These small

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   entities enable people living in smaller markets to have access to goods and services this uplifts their living standards
5) Small firms offer support services to large firms by distributing products. It is not practical for organisations like Nestle Zimbabwe to operate outlets in rural areas but their products are distributed there by small firms.
6) Small firms provide employment to a significant proportion of population. This generally improves the living standards of the nation as the national income is positively affected by their contribution, small firms usually have limited capital at their disposal therefore they tend to use more of labour than capital.
7) Small businesses provide competition to large firms, this leads to efficiencies in the market. It can appear as if small firms do not pose significant threat to big firms, however, the collective market share of small firms can be significant in industry e.g. the motor spares distribution industry and security industry.
8) They require low start up capital therefore the business can be funded from personal savings and personal savings
9) They are usually easier to manage as opposed to large firms which require complex structures therefore; decisions in small firms can be made and implemented faster. This ensures that decisions are implemented when they are still relevant.

DISADVANTAGES OF SMALL FIRMS

1) Small firms have higher operational costs as opposed to large firms ,this is mainly attributable to the fact that small firms are not big enough to enjoy economies of scale
2) Small firms may lack human and material resources to enable them to compete at par with larger firms. Larger firms enjoy economies of scale so they are better positioned to win in the event of excessive price wars. In other words small firm's existence is continuously threatened by competition from larger business.
3) Small businesses find it difficult to raise adequate capital as compared to large firms who have numerous options at their disposal. Capital is an important ingredient for business growth therefore this partially explains why small businesses find it difficult to expand. Small firms struggle to raise adequate capital to invest in research and developmental projects therefore they usually dominate in flooded industries which are less profitable.
4) Small firms lack exposure and authority in the market. Many clients prefer to conduct businesses with big established entities as compared to small businesses as they are considered to be risky. Therefore, competition for market share is skewed in favour of large entities .This results in smaller firms embarking in price competition, which is self defeating as they ask for lower prices while their costs are comparatively higher than those larger firms.
5) Small firms may have capital constraints to the extent of being unable to hire professional managers .This adversely affects the productivity of small firms as poorly trained staff may be costly to the business in the long run as the costs associated with errors and poor decisions will accumulate.
6) Employees of small businesses have limited opportunities for advancements and prospects for promotion .This may adversely

affect the morale of the employees in smaller businesses.

7) Small firms especially sole traders and partnerships may lack proper corporate governance practices. This applies to scenarios where relatives of supervisors can claim authority to the business even though they are not part of the organisation e.g. Utakataka express musical band was inherited by the son of the former band leader .This adversely impacts on the morale of the employees.

Nature and scope of international and multinational business

- Multinational businesses are businesses that have their headquarters in one country and operating factories, branches and assembly plants in other countries.
- These companies do not only export finished products, they actually manufacture products or provide services.
- Examples of multinational business organisations in Zimbabwe are AON (Pvt) Limited, Circle Cement Ltd, Costain African Ltd, Hunyani Paper and Packaging (1997) (Pvt) Ltd, Nestle Zimbabwe (Pvt) Ltd, Olivine Industries (Pvt) Ltd, Standard Chartered Bank and Zimbabwe Bata Shoe Company Ltd.

Importance of international trading links

- The growth of local business may imply intense competition on the domestic market .This prompts management to look beyond physical boarders for markets.
- International trading links enables businesses to acquire technologies and equipment for use in production processes.
  Such equipment go a long way in improving efficiency levels in organisations
- International links enables local businesses to learn from established businesses in other nations e.g. before Zimbabwean businesses embarked on mobile telephone businesses, such businesses had already been established in other nations, therefore local firms had to draw some lessons from established firms from other nations.
- International trading links positively impact on the standard of living of the citizens. This is partially explained by the fact that most international business organisations are big enough to enjoy scale economies. This implies that their cost of production is less therefore they can offer cheaper products to the market or provide competition to the local firms.
- International trading links permit nations to specialise in production of goods which they have a comparative advantage when compared to other nations i.e. goods which it can produce cheaply compared to other nations e.g. Zimbabwe has the duty to specialise in the production of agricultural produce in the SADC region.

Demerits of international trading links

- Competition from foreign businesses can drive local producers out of business if left unchecked. International businesses are large enough to enjoy economies of scale and the local firms may find it difficult to withstand competition e.g. DEVEN, AVM AFRICA and MAZDA WILLOWVALE motor industries are performing badly after the influx of cheap second hand vehicles from Japan.
- Switching from locally produced goods to imports is not a sustainable move as it adversely impacts on the unemployment levels and the revenue collected by the government from employee taxes as local businesses are forced to lay off excess labour requirements as demand for their products decline.

Importance of multinational businesses

1) Multinational businesses enjoy economies of scale and their lower production costs can be passed on to consumers in form of reduced prices, this uplifts the societal living standards.
2) Multinational businesses are adequately funded therefore they are better

positioned to operate efficiently as they can acquire modern technologies aimed at improving both efficiency and effectiveness of business operations.

3) They provide employment to locals as they produce in their host nation e.g. Uniliver used to employ more than 10 000 employees in 1996.
4) Multinational businesses help to increase the gross domestic product of host nations i.e. output produced within the national borders. GDP is an important measure of the nation's living standards.
5) The government earns revenue in the form of taxes as it levies corporate tax to the multinational businesses.
6) Multinational businesses offer products with a consistent quality as their operations are standardised for example Uniliver, Pepsi and Coca Cola products produced in Zimbabwe are of the same quality to those produced in Zambia or South Africa.
7) When multinationals are to establish businesses in Zimbabwe, they bring in foreign currency to the nation. This is an injection into the economy, however in the long run they will withdraw profits and return them back to their country.
8) Most multinational entities in Zimbabwe are managed by locals this provides opportunities to locals to gain experience and skills involved in managing large entities.

Relationship between multinationals and the state

There is a mutual dependence between Multinational entity and the state this has been discussed below.

1) The government has the objective of encouraging investment in the economy therefore multinational businesses provide the required foreign direct investment, which goes a long way in improving the living standards of nationals.
2) Multinational firms are usually big that they can export some of their output. Such exports bring in the much needed foreign currency to the economy. Foreign currency inflows also occur when the business is being established.
3) The state also seeks to maintain minimal levels of unemployment in the economy. The multinational businesses assist the state in this regard by employing a significant proportion of the population to the benefit of the state.
4) The establishment of multinational businesses creates business to other local businesses who offer support services to multinational business organisations. This effect is termed the multiplier effect because its long reaching e.g. the establishment of a multinational mining business can increase demand for bread as the new employees will demand more bread. This will generally uplift the living standards.
5) The government's tax revenue base is broadened as the multinational business pay taxes to the state also the employees of the entity and those who offers it support services are taxed directly.
6) The national human resources base will improve in terms of quality as local nationals acquire skills required to be productive in these large institutions.
7) The G.D.P. of the economy will improve by establishing more businesses locally.
8) The state is forced to intervene in the markets to ensure that competition in the market is as fair as possible. If competition is left unregulated multinational businesses can grow into monopolies which have potential to exploit consumers. This prompts government to introduce policies skewed against multinational firms.
9) The profits made by multinational businesses can be sent back to their host nations. This is of major concern to the state as this represents a withdrawal of funds from the economy. The government usually responds by taxing dividends declared by these businesses to non residents.
10) Multinational entities are partly to blame for the cultural changes in most developing countries like Zimbabwe. This worries the government as the idea about cultural erosion and westernisation of culture adversely impacts on social patterns of life.
11) Multinational businesses can be partly blamed for the unsustainable use of natural resources because they are aware of the fact that they can relocate to other nations in the event that the resources are

depleted e.g. in November 2015 the minister of natural resources took action against some multinational mining entities accused of practicing alluvial mining while purporting to be de-silting rivers.

12) Some multinational businesses may violate local laws especially pertaining to labour and control of environmental pollution. Media reports have highlighted that some foreign entities are violating local labour laws taking advantage of high levels of unemployment currently being experienced in Zimbabwe. Multinational firms purport to rely more on international laws as opposed to local legislation.

State intervention to assist /constrain businesses of different sizes

- In mixed economic systems like Zimbabwe the state plays the role of a regulator in the business activities taking place in the economy.
- The government intervenes in the business activities in the effort to achieve its macroeconomic objectives which include reduction of unemployment, achieve economic growth (G.D.P), improve the balance of payments position, to improve government income and to promote or discourage the consumption of particular goods.

State intervention to assist businesses

The government can implement measures which are to assist businesses of different sizes .These are discussed below.

Reasons for assisting large firms

- Large firms employ a bigger number of citizens in an economy. Therefore if large firms are facing problems the state may intervene with measures to save these institutions so as to avoid job losses which may bring adverse social and economic consequences.
- Large firms contribute more to the government revenue in form of corporate tax and individual income tax contributions by its employees, therefore the state is aware of the probable income loss if the large firms fail. This prompts the state to intervene with measures meant to assist large firms whenever their existence is threatened.
- Large firms are in a better position to increase their scale of production (output) so the state may intervene to assist large firms such that they can export any excess. This improves balance of payments position and also earns the nation some foreign currency.
- Multiplier
- Strategic ZFC

Reasons for assisting small businesses

- Small businesses contribute to the employment levels in an economy therefore the government may intervene to assist small firms so as to maintain employment levels.
- The government may intervene to assist small firms so as to protect them from intense competition from large firms and encourage them to grow. Small firms may find it difficult to withstand completion from large firms therefore the state at times intervenes to assist.
- The state seeks to achieve economic growth partly by ensuring that economic activities are distributed equally throughout the country. For instance in Zimbabwe most economic activities take place in urban set ups, therefore the government assist small businesses operating in neglected areas e.g. growth points.

Why state intervenes to constrain large firms

- Competition is important in any economy as it motivates firms to operate efficiently. The state can intervene to restrain further growth of large entities as they are viewed as a move to eliminate competition. Large firms' posse significant influence on the market that they can influence market decisions single handedly. Therefore growth of businesses if not well monitored can result in the exploitation of consumers and suppliers alike.

- The state may intervene to constrain large firms as a way of promoting smaller firms. Smaller firms are not in a position to compete fairly with large businesses therefore the government intervenes with policies that support small firms. This constrains large businesses.
- The government may seek to improve distribution of national income .this prompts the state to take action which constrains large firms e.g. the Ministry of Youth Indigenisation and employment creation has introduced the community share ownership trusts prompting local mines to pay dividends to the communities they operate in such moves.

Why state intervenes to constrain small firms

- Small firms' especially sole traders have a reputation of operating in without proper accounting records. Most small firms do not meet their tax obligations to the state.

  This prompts the government to intervene so as to constrain the activities of small firms.
- Small firms contribute to the inefficient use of the available economic resources. Small firms are not in a position to enjoy economies of scale therefore more resources are used up by small firms. This may motivate the state to intervene by constraining small firms.
- Small firms are usually so many that it becomes difficult to regulate them .Some small business organisations are not in a position to employ qualified and experienced professionals to manage the business. This implies that the state has to put in place systems to monitor the activities of these businesses because the quality of management involved has higher risk of making errors and may be of questionable integrity .The costs of supervising small firms can be exorbitant e.g. ZIMRA & NSSA incur costs sending inspectors to asses returns by small firms.

Methods of government to assist firms

- The state can intervene by providing funds to the businesses facing financial challenges. The funds can be provided as grants or loans depending on the agreement. For instance, the Reserve bank of Zimbabwe is a lender of last resort to financial institutions e.g. banks and building societies.
- Taxes. The state seeks to promote local industries from foreign competition. Therefore the state intervenes by imposing import restrictions such as taxes on imports so as to reduce their competitiveness on the local market. This eliminates the price advantage that imports may have on locally produced products.
- The state may impose embargoes (ban) the importation or production of particular products. Such bans as imposed by Zimbabwe on the importation of Genetically Modified Organisms (GMO) protect some firms from competition. ➢ Export processing zones

  The Zimbabwean government has created EPZs which are dedicated business areas where investors are allowed to import plant, equipment, machinery, raw materials and equipment free of duty for the manufacture of export goods.
- The state can assist firms by offering them subsidies. Subsidies are grants by the state to assist a business to cover its operating expenses. They have an effect of reducing the production costs thus translating to lower prices or increased output. This applies mainly to merit goods such as health and education e.g., the state has been paying salaries to teachers working in trust schools.

METHODS TO CONSTRAIN FIRM

1) Taxes

These are levies charged to business organisations by the state. Taxes are the major source of government revenue.

However the state taxes business organisations differently e.g. multinational entities pay higher tax rates than local businesses.

2) Tax holidays
   The state can exempt some businesses form remitting taxes for particular periods. The disadvantages of competitors of such business as businesses on tax holidays enjoy cost advantages over its competitors
3) Legislation
   The state uses legislation to constrain the activities of some businesses. The state can appoint a regulatory board to monitor the activities of firms in a particular industry e.g. R.B.Z. monitors financial institutions. Therefore the state has set up the competition and pricing commission board which i.e. mandated amongst other things to ensure that fair competition exists in markets. This implies that some business majors can be blocked by the state. This constrains business activities in efforts to control inflation levels and living standards.
4) Price controls
   The state can impose price control on products produced by private businesses. Maximum price controls as those imposed by the state in 2008 adversely affect business activities as the prices may be insufficient to cover operating costs .On the other hand minimum prices such as minimum wages increase the costs of businesses thus making their products less competitive.

BUSINESS STRATEGY

Business organisations do not operate in an isolated environment therefore management has to assess the impact of the external environmental factors to the business activities. Management has to analyse the environmental pressures so as to come up with an effective business strategy which can enable the business to achieve its objectives in an efficient way. Research has concluded that businesses which are quick to adapt to environmental changes usually do well and most businesses fail partially because they have failed to adapt to the ever changing environment. The impact of globalisation has accelerated the rate of change in the environment especially in the area of technology.

HIERARCHY OF BUSINESS OBJECTIVES

1. CORPORATE AIM

These are long term goals that a business seeks to fulfil. The core business activities of the business are expressed in the aims. They are the starting point of all the business planning activities and they continue to guide the planning and evaluation process. Aims are formulated by senior management e.g. directors and subject to the approval of shareholders. Examples of corporate aims are maximising returns to ordinary shareholders, being a market leader or to venture in international markets. Such aims will guide all the organisational activities i.e. all business activities should be aligned to the aim.

2. MISSION

The mission of a business is what the business seeks to achieve by its existence. It is stated as a statement, a mission statement is a brief statement of the business's core aims which are phrased in a manner that motivates internal stakeholders to work toward achieving them and stimulate interest by external stakeholders to do business with the entity. The mission is derived directly from the organisational vision i.e. the vision stipulates what the business aims to achieve and the mission briefly outlines the means of achieving them. Example of a mission statement for a transport business is to provide safe and reliable transport services across the nation. Such a mission statement gives insight on the core activities of the business i.e. the business prioritises safety and reliability and it seeks to spread its services all over the nation.

3. CORPORATE OBJECTIVES

The business objectives are those specific ends which the business seeks to achieve in a particular period. These objectives may vary from one business entity to the other. Objectives are directly deduced from the organisation's mission and vision. These objectives can also be particular to a department, team or any identifiable unit of the organisation. Some of the most common business objectives are discussed below

1. Profit maximisation. Maximising profitability is the most traditional objective which most if not all modern day businesses pursue. Although this objective is still a major motivator on business activities, modern businesses have shifted emphasis on the sustainability of the maximum profits. This is primarily as a result of the fact that some huge profits can be attained using methods which cannot be sustained in future periods e.g. cutting costs by disposing liquid waste in water bodies may maximise short term profits before prompting authorities to take action against the firm. However, it can be argued that modern businesses still pursue this objective in an indirect manner as all other objectives can be traced back to this objective.
2. Targeted return on capital employed. Not all entities seek to generate maximum possible profits, some organisations seek to achieve a specified return on capital employed i.e. a particular level of profitability e.g. generate a return on capital employed of 33%. Such objective is more specific and measurable than seeking to maximise profits.
3. Growth. Growth can be internal or external as discussed in earlier discussions. Growth enables businesses to enjoy scale economies, raise more capital and hire qualified personnel who can implement the corporate strategy effectively and in an efficient manner. The growth objective usually sees firms seeking to improve any of the variables used to measure the size of a business entity e.g. market value of shares, market share, capital invested, e.t.c.
4. Survival. This is a short term business objective usually adopted when the operating environment is turbulent. In times were the external environment is unstable businesses face operational challenges which most businesses may succumb to and close shop e.g. the hyper inflation period in Zimbabwe resulted in the failure of most local businesses. In difficult times the business may pursue an objective to enable it to keep its head above the water until the environment stabilises. This may involve the business seeking only to break even i.e. to generate income that covers its operational costs.
5. Market share. Some business organisations may seek to increase their market share. This objective has the benefit of maximising long term profits of the entity and also helps to ensure that future profits are sustainable and stable. Entities pursuing this strategy usually invest heavily in marketing activities such as product development, penetrative pricing strategies, branding, advertising and adopting extensive distribution channels. These investments do not necessarily short term benefits to the business.
6. Improving and Maintaining Goodwill. Some businesses strive to maintain their image and goodwill in the market. These enterprises want the masses to view them favourably. For this purpose, enterprises need to comply with moral, ethical and legal standards, and let these compliances be known to relevant stakeholders. Such strategies are common with businesses which have received negative publicity of late and those operating in heavily regulated industries

Conflict of business objectives

Business objectives can conflict with each other and common cases are:

1. Short term V long term: What is good in the short term can have negative effects in the long run e.g. cutting on advertising expenditure may increase short term profits but may result if declining sales and profits in future

2. Growth V Profit: Strategies employed to increase market share may adversely impact on profitability e.g. price cuts, social responsibility programs, improved product quality or intensive advertising campaign
3. Risk V Return: although businesses take calculated risk, risk increases as returns increase. Managers seek to minimise risk and maximise returns

To sum up, business organisations have a variety of objectives which they may pursue at any given time but most modern day entities seem to be prioritising achieving long term sustainable profits as opposed to maximising short term profits.

CHARACTERISTICS OF GOOD BUSINESS OBJECTIVES

Businesses need objectives to enable them to operate in a particular predetermined direction. These objectives give the organisations a source of direction and are essential to ensure that each member of the organisation is working towards the attainment of the organisational of objectives i.e. unit of purpose. They also provide a benchmark from which to assess the performance of the business over time. For business objectivities to serve the intended purpose they have to be Specific, Measurable, Attainable, Realistic and Time specific [SMART]

1. **Specific**: They must be precise and concise implying that a good objective should be brief and straight to the point. It must clearly state what has to be achieved, e.g. increased profits.
2. **Measurable**: The objective be capable of being measured objectively, this implies the desired outcome should be quantifiable implying it should be expressed in a number value such that can be measured, e.g. increase profits by 10%.
3. **Agreed**: The business objectives have a direct impact on the motivational levels of the staff members responsible for attaining those objectives. It is therefore important to engage all members of the organisation in a democratic way when setting these objectives. Good objectives should be challenging but attainable under conditions of reasonable efficiency.
4. **Realistic**: the set target should be possible given the market conditions and the staff and financial resources available. Unrealistic objectives adversely impact on the morale of the staff members as argued by the expectancy theory of motivation implying that staff members are reasonable beings so they will not waste their effort trying to attain an objective which they feel cannot be achieved under the present circumstances.
5. **Time specific**: the target must have time limits e.g. 1 year to avoid vagueness. His is important for the purposes of evaluating the performance of the entity over time.

An example of a SMART objective is 'to increase profits by 10% within the next 12 months'. SMART objectives allow the performance of a business to be assessed.

DEPARTMENTAL OBJECTIVES

These are objectives set for a specific department within an organisation e.g. production, marketing or finance department depending on the organisational structure. These objectives are set at departmental level and are supposed to be consistent with the overall business objectives e.g. if the overall business objective is to increase market share the marketing department may have a strategy to increase promotional activities so as to gain market share. They are set by middle management and are of medium term in nature.

INDIVIDUAL TARGETS

These are objectives set for each member of the organisation, these objectives are set at lower levels of the hierarchy e.g. by supervisors and forepersons. They are of short term in nature e.g. for a secretary, to type and email minutes of a meeting before lunch.

STRATEGY

Now that a business has spelt out what it seeks to achieve (objectives), management has to formulate an overall long term plan which specifies the means to be applied in achieving the set objectives (strategy). In the formulation of a business strategy management has to consider the different environmental factors which may bring constrains in the business's aspirations to achieve the set objectives. Managers must have the ability to scan the external environment for opportunities and threats so as to consider them in the formulation, implementation and evaluation of strategy. The major environmental areas which managers need to consider are political, economic, social and technological factors (PEST). However factors like legal, physical, environmental and ethical are necessary when formulating strategy as the bring opportunities and threats to the business activities

Political environment

The political factors affecting business have to be given a lot of weight when formulating strategy. Government policy can affect business operations because all firms must adhere to the requirements of the law which is crafted by politians. The political environment can impact business organizations in many ways. It could add a risk factor and lead to a major loss for example wars or political unrest. It also covers factors like the foreign policy e.g. issues of hostile and friendly nations, these have an impact on the firms operations for instance Zimbabwean firms may find it difficult to secure markets in western nations because of the poor relations existing at the moment. However, political environment can provide opportunities to the business in times were the political ideology my favour one sector over others e.g. the Zimbabwean government is working hard to revive the agricultural sector so any business which operates in this sector is likely to receive the government support. Other factors considered under the political environment include consistency in government policies, corruption levels, bureaucracy and the level of security.

Legal environment

Managers must manage the business within the confines of the law and any acts which go against the law can be costly to the business in the long term. Management must be able to assess how upcoming legislation will impact on their business activities e.g. proposed environmental management laws. Management should understand that the legal factors have the power to single handedly change business results e.g. in 2016 the ministry of mines withdrew the mining licences for all firms operating in Marange. Management should also appreciate that the business's conduct can also affect government policies e.g. the withdrawal of mining licences for firms operating in Marange was partly attributable to most firms not complying with the government requirements. Managers are therefore supposed to be pro active in monitoring actual and proposed changes in the legal environment so as to formulate an effective strategy. Variables considered under the legal environment include tax law, employment law, indigenisation laws, property rights, environmental law and other laws specific to a particular sector e.g. banking regulations by the R.B.Z.

Economic environment

The economic environment consists of external factors in a business' market and the broader economy that can influence a business. These can be divided into the microeconomic environment, which affects business decision making such as individual actions of firms and consumers, and the macroeconomic environment, which affects an entire economy and all of its participants. Many economic factors act as external constraints on your business, which means that managers have little, if any, control over them. Macroeconomic influences are broad economic factors that either directly or indirectly affect the entire economy and all of its participants, including the business. These factors include interest rates, taxes, inflation, currency exchange rates, consumer real disposable income, savings rates, consumer confidence levels, unemployment rate, economic growth and income distribution patens. On the other hand, microeconomic factors influence how a business makes decisions. Microeconomic factors influencing a business include market size, demand, supply, competitors, suppliers and the distribution chain.

Social environment

The social aspect focuses on the forces within the society which include family, friends, colleagues, neighbours and the media. These factors can affect our attitudes, opinions and interests of citizens so, they can impact sales of product and revenues earned. This issue analyzes the demographic and cultural aspects of the company's market. These factors help businesses examine consumer needs and determine what pushes them to make purchases. Among the items that should be examined are population growth rates, age distribution, attitudes toward work, job market trends, religious and ethical beliefs, lifestyle changes, educational and environmental issues, buying habits, education level, emphasis on safety, sex distribution, social classes, family size and structure, population growth rate, immigration and emigration rates, age distribution and life expectancy rates, attitudes toward imported products and services, attitudes toward work, career, leisure and retirement and health consciousness. The sociological factors are important such that the business products are acceptable by the society e.g. distributing products with a logo showing a pig to Muslim communities is not a good idea because of their religious beliefs.

Technological environment

Management has to take into consideration technology issues that affect how an organisation designs, produces, distributes and delivers its product or service to the marketplace. Among the specific items that need to be considered are technological advancements, government spending on technological research, the life cycle of current technology, the role of the Internet and the impact of potential information technology changes. In addition, companies should consider how generational shifts and their related technological expectations are likely to affect those who will use their product and how it is delivered. Technological improvements enable business organisations to improve productivity by using sophisticated machinery and to enhance the distribution channels e.g. online sales and advertising. Management should take advantage of these technological improvements at the same time recognising the drawbacks of such benefits e.g. hacking and the increased risk of information manipulation and fraud.

Ethical factors

Ethics refer to a socially prescribed or acceptable code of conduct. Ethical issues are a set of moral values that need to be addressed while carrying out business. Businesses operate in a society that is structured around moral values. Therefore, when conducting its operations, a business has certain responsibilities which are to provide the society with quality goods and services that will improve the people’s living standards. For it to survive, a business needs to retain its current customers. Some unethical practices by firms include underweight packaging of products which are then highly priced and poor waste management resulting in pollution. However, such negative trends can affect the business in the long run especially in this era of consumer activism and that information is now travelling at increased speeds than before. In attempts to boost sales, some businessmen adapt promotional methods that mislead customers as the message conveyed may not give the exact details of the product, such unethical activities may motivate the authorities to intervene and impose controls to the industry.

Physical factors

The physical environment refers to the tangible, or material, objects and conditions that surround a business. These objects can be manmade or natural and such objects directly affect the business operations as they have a direct impact on the firms’ operational costs. Natural factors include the climate in the region e.g. Zimbabwean agricultural regions, soil texture i.e. suitable for agricultural or mining activities or not, proximity to natural water bodies e.g. rivers. Such factors affect the operational costs e.g. the closer the business is to the relevant features the higher the rentals but the lower are other operational costs, therefore management has to make a choice which strikes a balance between these two costs. Manmade physical factors include the transport network such as the quality of the road and rail system and the availability of an airport. Such physical factors can bring constrains and benefits to the business organisation e.g. a taxi operating at an international airport may have access to more customers but the driver is exposed to high levels of noise pollution.

MANAGEMENT BY OBJECTIVES

The term was first outlined by management Peter Drucker in 1954. It is a management model that aims to improve performance of an organisation by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans should ensure better participation and commitment among employees, as well as alignment of objectives across the organisation. This management technique works well with democratic management practices were consultation of all members to be affected by the objectives is made to minimise resistance and sub optimal behaviour from members. Sub optimal behaviour occurs when part of the organisation staff work towards achieving objectives which are not aligned to the overall business objectives. For example the finance department can withhold funds for marketing projects in an effort to cut operating expenditure, this move can benefit the finance department only but can be detrimental to the whole organisation. MBO enables every unit of the organisation to align their goals to the overall objectives and enable each member of the organisation to appreciate his or her role in the organisation.

Advantages

- It is a very effective planning method because it involves those individuals involved in the implementation of the plan therefore the objectives and the strategy to be employed is more likely to be effective
- MBO has positive motivational impact on the employees as they are more likely to feel recognised when required to contribute to the decision making process. This can go a long way in enhancing productivity as employees may develop a sense of ownership thus working hard to achieve the set objectives
- It provides a means to identify and plan for achievement of goals, objectives give any business organisation a sense of direction because, If you don't know what your goals are, you will not be able to achieve them. Thus objectives are a central point to the planning process. Therefore MBO permits proactive and a disciplined approach to goal achievement.
- It also allows management to prepare for contingencies that may hinder the plan. These are usually outlined in the planning stages and it also assist on the mobilisation and allocation of economic resources.
- Goals are measurable so that they can be assessed and adjusted easily. MBO provides management with a reliable basis from which to evaluate the performance of the organization as a whole and its units.
- It can be a basis to implement a performance related remuneration system which can be of mutual benefit to both the business and the workers. Such a system can improve efficiency, save resources, and increase organizational morale if well managed.

Disadvantages

- MBO puts much weight on democratic processes of goal setting, such democratic processes are usually time consuming therefore the planning processes may take longer than necessary which may be counter productive
- Application of MBO takes concerted effort. A cannot rely upon a thoughtless, mechanical approach, as it can be noted that some tasks are so simple that setting goals makes little sense and becomes more of silly.
- MBO relies on other factors of management conduct for instance it works well when staff is highly motivated staff

and the staff is literate and preferably skilled.

- There is often a focus on mere goal setting rather than developing a plan that can be implemented.
- The organization often fails to take into account environmental factors that hinder goal achievement, such as lack of resources or management support.

Organizations may also fail to monitor for changes, which may require modification of goals or even make them irrelevant.

- There is the issue of plain human neglect - failing to follow through on the goal. This may hinder the effectiveness of MBO

To sum up, MBO is a very essential tool for managers which can be applied in practice. However, it is essential for management to assess the characteristics of the workforce in line with McGregors' motivational theories such that management can assess its applicability under the circumstances. It is also important for management to note that MBO can be applied to functions within the organisation and still yield intended results.

CAUSES OF SUCCESS AND FAILURE OF BUSINESSES IN ZIMBABWE

Planning

Successful entities plan their activities in advance, they scan the external environment so as to foresee the probable changes and how they can impact on business activities. Such firms always have fall back plans in the event that the initial plan fails. Successful businesses are prudent in their planning activities i.e. they are honest in assessing the business' strengths, weaknesses, opportunities and threats.

On the other hand poor planning has single handedly caused the failure of most businesses in Zimbabwe. Such entities apply autocratic approaches to the planning process whereby no consultation and stakeholder involvement in the planning process. Poor planning is evidenced by the setting of unrealistic targets e.g. forecasting significant growth during an economic depression, such plans lack an objective environmental analysis. Under estimation of competitor is also another example of poor planning which requires research for it to be overcame

Implementation of strategy

Most business plans usually fail at the implementation stage, therefore businesses which are able to convert the plan to action are bound to be successful. The successful implementation of plan depends mainly on the availability of resources to enable the effective implementation of strategy. It also the manner in which management deals with unforeseen circumstances that enable an entity to succeed or fail

External factors, business failure to adapt

The external environment offers opportunities to business organisations but at the same time can posse threats to their existence. For instance, import restrictions by the Zimbabwean government may offer opportunities for growth to local businesses but may threaten the activities of businesses which wholly or partially rely on imports. Therefore, the success or failure of local business depends on their ability to quickly adapt to changes in the environment. Businesses need to be adaptive to the environment for them to survive because an effective strategy today can be ineffective tomorrow.

Speculation

Speculation on trends to be followed by factors in the external environment can directly determine the fate on business activities. For instance, the speculated technological improvements may adversely impact on the demand of particular products e.g. a cellular phone distributer may face reduced sales as consumers anticipate better products. However, speculation can work to the advantage of businesses e.g. the demand for maize has increased as consumers anticipate future shortages

Foreign competition

The availability of foreign produced goods on the market has adversely impacted on the performance of most local businesses. Most Zimbabwean businesses have succumbed to foreign competition because the foreign products are cheaper than locally produced products thus their market share has been shrinking to unsustainable levels. On the other hand, foreign competition contributes to the success of local businesses as it improves their efficiency levels such as the use sophisticated machinery e.g. Parirenyatwa group of hospitals acquired a dialysis machine partially because a good number of Zimbabweans were leaving the country to seek the dialysis services in South Africa.

High operating costs

The Zimbabwe National Chamber of Commerce (ZNCC) has been quoted to be complaining that the operational costs in Zimbabwe are higher than in other neighbouring nations. The rewards for factors of production e.g. wages, interest rates and rentals are not directly dependent on productivity. Such matters have significantly caused the failure of most Zimbabwean businesses e.g. labour in Zimbabwe has been traditionally remunerated on time rate basis which means workers are paid for the time the time they spend at the work place not for their contribution to the attainment of organisational goals. Such scenarios leave room for sub optimal behaviour by employees.

Government policies

The policies by the state have gone a long way in assisting local businesses to succeed, for instance policies restricting imports protect local businesses from the adverse effects of foreign competition. However, some laws by the state have partially contributed to the failure of some businesses e.g the labour laws made it exorbitant to retrench excess labour requirements. This made firms to retain unwanted labour thus unnecessarily increasing the overheads.

Protectionism

The state through the ministries of small to medium enterprises and ministry of Industry and commerce impose regulations to protect businesses within their jurisdiction. Such protection enables such firms to be successful as the law cushions these businesses from pressures in the environment. However, the state has no intention to protect such businesses forever. It has been established that businesses enjoying such protection may develop dependency syndrome, whereby they can hardly survive in the absence of such protective policies. The removal of protective laws may contribute to the failure of these firms

Management/ corporate governance

The success or failure of any business is dependent on the quality of management it has. Successful entities have been able to hire managers of integrity. Firms which hire qualified professional managers are better positioned to succeed than those which do not. It is also important to note that businesses which have and religiously follow a sound corporate governance and ethics code succeed in their operations. This has been one of the major reason blamed for the failure of most local state owned enterprises e.g. cases of management fraud, unaudited business activities and irregularities in the determination of management remuneration.

Funding

The turbulent economic environment in Zimbabwe has been partly blamed for the failure by locals to save as a result of high unemployment levels. Investment is a function of savings in the economy because citizens need to save before they invest. This partly contributed to the high interest rates being charged by local banks. These factors imply that some local businesses fail in the light of increased cost of capital which may result in local businesses employing less capital than required for them to implement the business strategy with efficiency.

OTHER REASONS FOR BUSINESS FAILURE

- Studies have concluded that, the ultimate reason why businesses fail is leadership as evidenced by poor financial planning, poor marketing, poor management and poor business planning. These factors are true, but we also have to consider the tough environment in which companies operate.

Growth: While growth is desirable, overexpansion is a serious error. Wanting to be the first to market with a new product, taking on added overhead, or trying to prove to anxious investors that you're growing can all spur you to overextend your business financially. Set realistic goals and expand only as needs dictate. Such unsustainable growth is termed overtrading i.e. expanding too fast with inadequate capital base.

Poor accounting system: Look at businesses that fail and you'll find that many of them took on too much debt. Learn to pay strict attention to your finances, and keep careful records of all money coming in and going out. Such scenario exposes the business to increased risk of fraud and information required for decision making is either not available or carries material misstatements

Overspending: Many new entrepreneurs burn through their start-up capital before their cash flow is positive. This often happens because of misconceptions about how business operates. For example excessive drawings and expenditure on non essential items e.g. luxurious vehicles for management, this also includes poor investment appraisal techniques.

Poor choice of location: Some entities locate at different places for the wrong reasons e.g. a cheap lease can tempt management into choosing the wrong location. Businesses need to also consider other factors like competition and accessibility.

Poor execution: Poor customer service and overall employee incompetence will quickly sink your business. Make sure your employees place a premium on customer service. Businesses must develop systems and processes for how tasks should be accomplished, and create internal controls to monitor them.

Failure to change with the time: The ability to recognize opportunities and be flexible enough to adapt is crucial to surviving and thriving. Learn how to wear multiple hats, respond nimbly, and develop new areas of expertise.

Cutting on wrong areas: Instead of doing what would increase the income, they start cutting out things that actually make the income. It makes more sense to downsize management perks than to cut down on inputs that create revenue.

Corruption, theft and dishonesty: Millions of dollars are lost yearly as management and staff take what doesn't belong to them. Such losses have been blamed for the failure of most businesses.

Pricing: Many Zimbabwean products are priced higher than imported goods. This allows SA imports room in their market.

STAKEHOLDERS

A stakeholder is anybody who can affect or is affected by an organisation, strategy or business activities. Stakeholders can be internal e.g. owners and employees or external e.g. customers, suppliers, community, government bodies. Some definitions suggest that stakeholders are those who have the power to impact an organisation or project in some way.

Owners

They are the most important stakeholders. They decide what happens to the business. They're the ones who enjoy a profit if the business is successful because they are the ones who provide capital to the business. Whilst Management have the primary responsibility to look after the owners' interests, and secure them an adequate Return On their Investments, the Owners of a business have ultimate control over what the firm does, and how it should be managed. According to Adam
Smith's classical economic view, a business exists solely for the benefit of its owners, with profit maximization as its single objective. Whilst this may be true in small, to medium sized businesses, due to the nature of control it is unlikely to be the case in larger businesses. In large public limited companies, for example, few shareholders will either work for the organization, or be in a strong position to influence its activities, through their level of share holding.

Customers

Consumers depend on business to supply them with the goods and services they require and for the safety, value and honest marketing of said goods or services. Consumers are free to choose therefore they have power to influence the business decisions. This implies that the business needs to design products to the requirements of the market for it to succeed.

Suppliers

These are individuals and corporate organisations which provide the business with it requirements e.g. raw materials. In providing goods and services to a business, suppliers hope to generate income and profit. The need to supply their products and services to a business makes them dependent on the continued success of the firm.

The Community/ Society

Society in general and the local community more directly, depend on businesses to provide employment, and investment. They also require businesses to behave with a social responsibility, towards protecting the environment. The society provides business with labour and potential customers. Firms are now far more aware of the need to maintain a positive public image. As this may well effect their businesses position in the market. Firms therefore increasingly consider whether the decisions they make are socially acceptable. Society as a whole protects its own interests formally, via laws and regulations, designed to ensure that businesses behave ethically and responsibly. This includes matters to do with pollution levels.

Government

The government manages the economy within which the business operates. The role of Government is to regulate business activities to protect consumers. Government agencies ensure product standards as well as that various legislations are adhered to ensure the protection of consumers' rights. The government receives taxes from businesses when the business makes a profit, therefore the state promotes the business activities. The Government also benefits from business activities because the entities create employment for locals and improve the nation's Gross Domestic Product. The government also seeks to maximise social welfare by controlling the levels of negative externalities e.g. pollution.

CONFLICT OF STAKEHOLDER OBJECTIVES

Each stakeholder group has different expectations from the business as mentioned above and the common conflicts are highlighted below.

1. Management & employees: conflicts arise on working conditions, remuneration, performance appraisals, quality of work
2. Customers & shareholders: shareholders expect higher dividends and consumers expect low prices and superior quality products which can adversely impact on shareholder returns

CORPORATE CULTURE AND STRATEGY

Corporate culture

Culture is the set of beliefs that drive employee behaviours. It can be described as the way business is conducted within an organisation. These can be things everybody in the company knows and shares, as well as unspoken rules. The range of acceptable employee behaviours is based on these underlying beliefs. Sometimes these behaviours align well with the business strategy. For example, some organizations have a strategic focus on innovation: They want employees to think creatively and share new ideas. If the culture is aligned with innovation, employees are rewarded when their new ideas hit the jackpot, and they aren't penalized for constructive failures. It is important to ensure that the business strategy is aligned to the organisational culture for the business to attain its objectives. A strategy which conflicts with the corporate culture is more likely to face resistance from the organisational members.

Organisational behaviour

It is the analysis of an organisation's structure, functions, and the behaviour of its people. Behavioural study encompasses both groups as well as individuals. It encompasses the study of people, individually and in groups at the workplace. Individual and group behaviour is a function of many factors, which extend to other interdisciplinary fields such as economics, political science and human resource management. The scope of organisational behaviour is therefore extensive. An organization needs to manage all these aspects so that it can sustain itself in a competitive market. Theoretically, it is difficult to separate management from organisational behaviour. It can be said that one supplements the other. Some organisational behaviour issues have their roots in management processes.

Organisational behaviour studies therefore draw from management theories to understand aspects such as organisational structure, behaviour of people in an organisation, and the issues concerning external and internal fit.

Successful management of organisational behaviour largely depends on the management practices that prevail in an organization. Understanding organisational behaviour, therefore, requires a clear understanding of the basics of management.

- To sum up, the manner in which an organisation behaves is a direct result of the corporate culture prevailing in the organisation. The corporate culture is greatly influenced by the management styles being applied by management. Therefore managers must apply the best management techniques which enable the business to achieve its intended objectives in an efficient manner.

The decision making process

Managers have the duty to make decisions which have to ensure the smooth running of the business. It is also expected from managers to balance between the short and long term objectives of the business. The following steps are generally followed in making quality decisions

1. Identification of the problem: It involves establishing the reason why the decision has to be made. Decisions are made in order to either solve an existing problem or to avoid a problem. The identification of the correct problem is very important because decisions made basing on the wrong problem are unlikely to serve the intended purpose.
2. Information gathering: Decision makers must gather as much information as possible about the problem as possible. Information should establish the real source of the problem to avoid dealing with the signs and symptoms leaving the source. For instance increased wastage of materials may be as a result of poor motivation as opposed to the acquisition of sub standard materials.
3. Principles for judging alternatives: Decisions are made basing on a specific context, i.e. decisions are made in line with the vision and mission of the organisation. Decisions which are best for a firm in the private sector cannot be applied in public institutions because these organisations have different objectives.
4. Brainstorm and analyse different choices: Democratic processes assist the decision making process by meeting with various stakeholders who are to be affected by the decision. This involves getting suggestions and discussing them. This stage gives the manager an insight on the perceived source of the problem and the probable reaction by each class of stakeholders if a particular decision is made. This stage helps to motivate the employees and to minimise resistance.
5. Evaluate different alternatives: The available options must be evaluated by the decision maker, this involves assessing the overall costs and benefits which come with each option. This is done in line with the principles outlined at stage 3.
6. Select the best alternative: The best option under the circumstances is selected for implementation
7. Implement the decision: The decision is implemented into action.

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Managing Human Resources

A business organisation requires resources such as capital, land and labour to enable them to achieve their objectives. Labour is arguably the most complex resource to manage because it is a challenge to

Need for organisational structure

An organisation is a group of people who work together to achieve a common goal. In order to work efficiently the group must find the best way to organise the work that needs to be done in order to achieve its goals. This form of organisation is that which distinguishes an organisation from a crowd e.g. football supporters.

Organisational structure

- It is a system used to define a hierarchy within an organisation. It identifies each job, its function and where it reports to within the organisation
- It can be described as an internal, formal framework of a business that shows the way in which management is organised and linked together and how authority is passed down the organisation.
- This can be illustrated by the diagram below, which is also known as an organisational chart.

The chart provides the following information

1. Who has overall responsibility for decision making i.e. the C.E.O.
2. The formal relationship different between positions within the organisations e.g. the marketing and finance director report to the C.E.O
3. It clearly shows the chain of command i.e. the way in which authority and accountability can be passed down the chain of command e.g. the finance director can assign tasks directly to the finance manager but the marketing director cannot
4. The identity of the superior to which each member in the organisation reports to e.g. the finance director reports directly to the C.E.O.

Approaches to organisational structures

Functional organisation

The organisations' reporting relationships are grouped based on speciality e.g. there may be different departments for marketing and finance

Merits

- Staff is managed by a person with experience in the same speciality. This person can adequately understand and review their work e.g. the an accountant was once a bookkeeper
- Staff members have the opportunity to move up within their functional areas (promotion), this can motivate the staff and go a long way in reducing the labour turnover. Labour turnover is the number of employees leaving the organisation
- Staff members work with others in their field. This makes it easier to share knowledge
- The organisation enjoys the benefits of specialisation

Demerits

- Risk of sub optimal decisions by functions i.e. a function may make decisions which are best to the department but not best to the entire organisation e.g. the finance department may purchase cheaper materials to save funds but this material may adversely impact on productivity.
- Communication between departments is difficult to manage since the departments are not accountable to each other

Matrix organisation structure

It is a management structure in which organisational members report to more than one superior. It has its origins in the field of project management. For instance, a project accountant reports to the project manager and the finance manager.

Merits

- Encourages democratic leadership style, whereby team members can make contributions before decisions are made.
- Flexibility, specialists from different areas can work together sharing information. This improves the quality of decisions thus improving productivity
- Permits efficient information interchange, for instance, teams comprising members from different functions are less likely to make sub optimal decisions
- Promotes team work amongst employees which is an important factor required in any organisation
- The organisation can fully benefit from the services of experts and enables the organisation to cut on some labour costs
- Motivates staff members it can bring a sense of empowerment as the team can discuss problems from different areas of speciality

Demerits

- Ambiguity, reporting to more than one superior can make it confusing in terms of which superior to brief first. This defies the concept of unit of command
- There is a chance that managers can give conflicting instructions to the subordinate, this is a potential source of organisational conflict

Characteristics of a good structure

1. Flexibility: the structure of the organisation must be able to easily adjust to the changes in the operating environment, e.g. a matrix structure is suitable in instances where complex challenges are anticipated
2. Meet the business needs: the structure should be in line with the business' organisational objectives. An ideal structure should assist the organisation to attain its objectives, therefore the structure must be designed with the organisations' mission in mind. For instance, a business whose mission is to provide affordable products to a particular segment of the market needs to have a separate production and marketing departments. However, such a business may combine the finance and administration departments
3. Permit growth and development: the structure must continue to be of relevance even if the business grows. Some structures are only effective for small organisations e.g. most small organisations do not have stand alone Human resources departments

To sum up, the structure of the organisation must serve the intended purpose i.e. each unit must make a meaningful contribution towards the attainment of organisational goals. The benefits of running each unit must outweigh the cost, therefore the performance of each unit must be evaluated periodically.

Formal organisation

A formal organisation refers to the structure of well defined jobs, each bearing a definite measure of authority, responsibility and accountability. Therefore a formal organisation is created through the coordination of efforts of various individuals. Every member within the organisation is responsible for the performance of specified task assigned to him on the basis of authority responsibility relationship.

Power

Power is the ability to exert influence e.g. managers can give orders to their subordinates

Types of power

- Legitimate power: a person on a higher position has control over a person in a lower position in an organisation
- Charismatic power: having an exemplary character adored by other organisational members. This entails being a very good communicator who convince others of his/ her ideas
- Expert power: It is based on the perception that one possesses superior skill or knowledge e.g. people on training obey orders from experienced personnel
- Reward power: a person motivates others by offering rewards such as promotions, pay rises and other awards.
- Coercive power: a person uses force and threats. It is unlikely to win respect and loyalty from subordinates. Therefore, it must be used as the last resort.

Chain of command

- This is the route through which authority is passed down the organisation. Typically, the highest position i.e. the C.E.O. in the organisation has the ultimate authority. This authority is then passed down from superior to subordinate

Span of control

- It refers to the number of subordinates who report directly to a single superior. The span of control can be wide implying that more subordinates are accountable to one superior or narrow i.e. few subordinates reporting to a superior.

Narrow span of control

- It results in close control of subordinates and a tall structure
- It is more costly to the organisation due to increased overheads (supervision costs)
- Close supervision is more likely to negatively affect the staff morale and motivation
- Works well with less qualified staff members who require close supervision
- It is also suitable in cases where the managers are not experienced
- Enables fast communication between superiors and subordinates

Wide span of control

- It results in a short structure i.e. few levels from the highest position to the lowest position
- The level of supervision is not very tight as the superior has a sizable number to monitor
- Works well with highly motivated staff who can work with minimal supervision
- It enables the organisation cut on supervision cost making it competitive
- It yields maximum benefits when the staff is trained i.e. they do not need strict supervision
- This works well with decentralisation as it reduces pressure on the superior

Authority

- Authority is the legitimate right to exercise power
- Various individuals can influence the actions of other members within an organisation, such power has to be sanctioned by the organisational structure for it to be classified as authority e.g. the vertical relationship between position
- Authority flows down the chain of command

Accountability

- It is the answerability for the performance of the assigned task
- Members of the organisation are accountable for the tasks assigned them
- Subordinates are answerable to their superiors

It is the responsibility of the superior to ensure that those accountable to them execute their duties in an efficient manner

For example, the directors of a company are accountable to the shareholders.

Responsibility

It is the responsibility of managers to ensure that everyone is on task doing the right thing

Responsibility has to be directly connected to accountability implying that managers are responsible for ensuring that those accountable to them make positive contribution towards the attainment of organisational goals

Authority and responsibility are also closely related because if a person is granted responsibility without sufficient authority, that person cannot accomplish the task efficiently e.g. subordinates must obey orders from their superiors.

On the other hand if excess authority is delegated such authority is likely to be misused in one way or the other.

Growth and the organisational structure

The size of an entity directly influences the manner in which it is structured. As the organisation grows in size the existing structure can become unsustainable, for instance a small sole trader business in which the owner participates in the day to day management of the entity may have few employees who report directly to the owner. On the other hand, as the business grows more layers and functions are added on for the ease of coordination of the organisational efforts and to benefit more from specialisation. This is explained below

At the launch of the sole trader works alone with him/her directly monitoring all the employees performance. The owner is responsible for marketing the products, collecting payments, determining the credit policy, hiring and the supervision of the staff, e.t.c. The small scale enables the owner to execute these tasks in a fairly efficient manner.

As the business increases the pressure will pile on the owner hence need to increase the number of employees. The increased number of staff becomes more complex to monitor for the owner, hence need to apply the concepts of specialisation. This may result in the owner identifying strategic functions within the organisation and delegate that task to some individuals' e.g. marketing, finance, human resources, operations or administration. These individuals will monitor the performance of others and report to the owner. This reduces pressure on the owner who can concentrate on strategic issues.

The business can grow further by opening branches in other geographical locations. Such develop

'#?:>ments require a manager for each branch and a central office to which all branches report to. There is need to clarify how the head office staff and the staff in different branches are to relate to each other. This requires a formal organisational structure.

It can therefore be concluded that the size of an organisation directly affects the organisational structure. This is explained by the fact that the structure of the organisation should be sustainable in terms of striking a balance between costs and benefits,

Line and staff organisation

Line relationship

Line managers are those that have authority over others in a hierarchical structure e.g. a school head has authority over the teachers.

Line managers are responsible for the performance of their subordinates, therefore a subordinate to superior relationship exists.

Staff relationship

- Staff managers do not have line authority over others, but they are specialists who provide expert advice to senior line managers e.g. economists and financial analysts
- Staff managers rely on expert power as opposed to other sources of power
- They are important because their advice enables management to make informed decisions. However, they do not make decisions they only play a supporting role

Conflict between staff and line managers

- Line managers may feel staff personnel are not accountable for their actions as they do not have direct responsibility to the core functions of the organisation
- Ideas brought by staff personnel may lack applicability because they may lack detailed knowledge of the operational activities
- Staff personnel may bring advice inconsistent with the organisational culture which is a source of conflict. This emanates from the different backgrounds which the personnel came from.
- Conflict can arise in times where functional authority can be granted to staff managers to ensure that their recommendations are implemented. The line manager may feel threatened by the move.
- Staff managers and line managers may not agree on who has to get credit for a particular
- To sum up, the best way of avoiding line and staff conflict lies in all members of the organisation acknowledging their mutual dependency and clearly defining the duties of each individual within an organisation. In order to minimise dysfunctional conflicts the morale within the organisation must be generally high i.e. members must be highly motivated

Centralisation

- Centralisation refers to the degree to which authority is distributed within an organisation. A centralised structure has the decision making authority retained higher up the chain of command.
- Centralisation is systematic and consistent reservation of authority at central points within the organisation, e.g. the marketing manager making or approving all marketing decisions
- This implies that, decision making authority is concentrated at top of an organisations' hierarchy i.e. subordinates are not authorised to unilateral decisions
- This is common in state owned enterprises and other bureaucratic organisations, where strict adherence to the laid down procedures is emphasised

Merits

- Consistent decisions are made within the organisation as they are made at the central point. This goes a long way in avoiding conflicts and the making of suboptimal decisions. Consistency is necessary in shaping the organisation culture.
- Senior managers are experienced decision makers therefore they are better positioned to make better quality decisions.
- Centralised decisions reduce coordination problems as the unifying force integrates all operations, thus it becomes easy to coordinate the organisations activities
- The organisation does not have to employ highly skilled subordinates as they are not required to make major decisions

Demerits

- Due to the fact that decisions are made at the top of the hierarchy, this might result in delays in the decision making and communication.

- It increases the burden on the top management, this may reduce the time devoted to strategic issues
- It doesn't afford lower level managers an opportunity to develop their decision making skills, this adversely affects their morale. This also has a negative impact on the continuity of the organisation as lower level managers are not authorised to make decisions
- Lower levels of motivation as staff cannot satisfy higher level needs e.g. achievement
- The success of the whole organisation is dependent on the competence of top management, this can pose significant risk to the entity since an error by one individual can cost the whole organisation dearly
- Senior managers can abuse decision making authority

Decentralisation

Decision making authority is spread out to include more managers in the hierarchy, as well as individual business units or trading locations

Merits

- Decision making is faster since as decisions can be made at the source.
- Decisions made can be more relevant to the situation as they are made by the individual closer to the situation
- Motivates the employees as the higher level needs e.g. independence, participation and status can be satisfied by making decisions
- Reduces workload for top management executives
- It gives opportunity for subordinates to exercise judgement. This enables them to develop managerial skills which will be useful in the long term in cases where promotions are necessary
- It facilitates a wider span of control and fewer levels of organisation. This speeds up communication within the organisation.
- Customers enjoy better quality services as their queries can be solved in a short space of time.

Demerits

- Challenges may arise in coordination the efforts by different functions because each function is given the autonomy to make relevant decisions. This may lead to inconsistencies in the decisions made.
- The quality of decisions can be adversely affected as lower level managers may lack the required skill and experience
- Decentralisation increases the operational costs of the organisation because each function has to have trained personnel to make relevant decisions.
- Decentralisation cannot work if the staff members do not possess the relevant decision making skills
- May result in duplication of tasks
- Increases risk of cost overruns i.e. spending more than budgeted funds. This is attributable to the fact that it becomes difficult to achieve tight financial control To sum up, the decision to centralise or decentralise decision making authority is very important in the success of any entity. However, it has to be noted that senior management remains responsible for the performance of the organisation. Therefore, the organisation must be structured in such a way that enables it to benefit from both decentralisation and centralisation while minimising drawbacks. Junior managers can be granted authority to make tactical and routine decisions while strategic decisions are made at the top of the hierarchy.

Delegation

- It is the passing of authority down the organisational hierarchy. Delegation therefore occurs when someone with authority confers upon another person the power to perform a particular task. It involves managers delegating authority to subordinates. However, the ultimate responsibility of the task being implemented remains with the delegator. For instance, the financial accountant may delegate to the bookkeeper the task of preparing the income statement, however, the accountant remains responsible for ensuring that the task has been completed, i.e. the Accountant remains accountable to the finance manager for the contents of the income statement

Effective delegation

The following factors are critical in ensuring that delegation yields the intended results

- Authority; the manager should not only delegate the task but must delegate authority this enables the person performing the delegated task to execute it effectively. For instance, if a school head delegates a task to a teacher other teachers have to obey the instructions from the teacher as if it is the school head executing it.
- Communication; there must be two way communication between the two parties involved. This ensures that the subordinate understands clearly what has to be done and the reasons for doing it. This clears misconceptions and the subordinate can be motivated
- The task must be well defined and time specific
- The subordinate must possess the relevant skills to execute the task effectively

Merits

- Motivates subordinates by creating trust, this goes a long way in enhancing productivity
- Senior managers are left with adequate time to deal with important issues as they delegate other tasks
- Tasks can be completed in time as the manager can delegate tasks to those who have less pressure
- It can be viewed as a form of on the job training, this grooms subordinates to be ready for more senior positions in future.
- Assists in the continuity of the organisation i.e. business can hardly be interrupted by the short term absence of the manager and a subordinate can take over in the absence of the manager.
- An opportunity for innovation as the subordinate can discover more efficient ways of executing the task at hand

Demerits

- Some duties are non delegable i.e. the duties cannot be delegated legally. Therefore the manager exposes him/ herself to risk by delegation
- Delegation requires skill on the part of both delegator and the subordinate for it to be successful
- It can only succeed if the employee morale is high. Demotivated employees generally dislike work therefore they shun and avoid responsibility
- Subordinates may be unwilling to perform the delegated task but can be shy to communicate the task to the superior Subordinate may not put much effort in executing the delegated task as they are aware that the ultimate responsibility remains with the delegator
- There is potential for abuse of delegated authority
- The subordinate may lack relevant skill to execute the delegated task effectively and efficiently

Reasons why managers are reluctant to delegate

- The manager cannot delegate responsibility i.e. the manage remains accountable for the performance of the task to his/her superiors
- The nature of the task i.e. if a task is critical or strategic the manager can prefer to perform it in person for the fear of errors and to maintain confidentiality e.g. the Accountant manager can prefer to run the payroll for senior managers in person to maintain privacy
- Fear that the subordinate cannot perform the task with perfection

Some managers may be afraid of competition from subordinate for his/her post in the event that the subordinate performs the task better than them

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Fayol's 14 principles

Henry Fayol brought forward fourteen management principles of what he deemed to be necessary for any organisation to operate efficiently and effectively. The presence of these features is what distinguishes an organisation from the crowd.

Management Principles developed by Henri Fayol:

1. **DIVISION OF WORK**: Work should be divided among individuals and groups to ensure that effort and attention are focused on special portions of the task. Fayol presented work specialization as the best way to use the human resources of the organization.
2. **AUTHORITY**: The concepts of Authority and responsibility are closely related. Authority was defined by Fayol as the right to give orders and the power to exact obedience. Responsibility involves being accountable, and is therefore naturally associated with authority. Whoever assumes authority also assumes responsibility.
3. **DISCIPLINE**: A successful organization requires the common effort of workers. Penalties should be applied judiciously to encourage this common effort.
4. **UNITY OF COMMAND**: Workers should receive orders from only one manager.
5. **UNITY OF DIRECTION**: The entire organization should be moving towards a common objective in a common direction.
6. **SUBORDINATION OF INDIVIDUAL INTERESTS TO THE GENERAL INTERESTS**: The interests of one person should not take priority over the interests of the organization as a whole.
7. **REMUNERATION**: Many variables, such as cost of living, supply of qualified personnel, general business conditions, and success of the business, should be considered in determining a worker's rate of pay.
8. **CENTRALIZATION**: Fayol defined centralization as lowering the importance of the subordinate role. Decentralization is increasing their importance. The degree to which centralization or decentralization should be adopted depends on the specific organization in which the manager is working.
9. **SCALAR CHAIN**: Managers in hierarchies are part of a chain like authority scale. Each manager, from the first line supervisor to the president/ C.E.O., possess certain amounts of authority. The President (C.E.O.) possesses the most authority; the first line supervisor the least. Lower level managers should always keep upper level managers informed of their work activities. The existence of a scalar chain and adherence to it are necessary if the organization is to be successful.
10. **ORDER:** For the sake of efficiency and coordination, all materials and people related to a specific kind of work should be treated as equally as possible.
11. **EQUITY**: All employees should be treated as equally as possible.
12. **STABILITY OF TENURE OF PERSONNEL**: Retaining productive employees should always be a high priority of management. Recruitment and Selection Costs, as well as increased product-reject rates are usually associated with hiring new workers.
13. **INITIATIVE**: Management should take steps to encourage worker initiative, which is defined as new or additional work activity undertaken through self direction.
14. **ESPIRIT DE CORPS**: Management should encourage harmony and general good feelings among employees.

NB***. Although it is less likely that you will be asked to state or explain these principles in the exam, making reference to them in discussing management issues is a demonstration of mastery.

Informal organisation

- Informal organisation refers to the relationship between people in an organisation based on personal attitudes, likes and dislikes. These relations are not developed according to procedures and regulations laid down in formal organisations e.g. a manager can make friends with a subordinate.
- Formal organisational structure assigns people to various positions, while working at those job positions the individuals interact with each other and develop some social and friendly groups within the organisation
- This network of social and friendly groups in the organisation forms another structure termed the informal structure.
- The purpose of informal groups is to get psychological satisfaction
- The existence of informal structure depends on the existence of a formal structure because individuals cannot interact in the absence of the formal organisation

Features

- It is created automatically without intended efforts of managers. They do not pursue a specific objective
- It is formed for social and psychological satisfaction of the employees
- The source of information can be difficult to ascertain as any person can communicate with anyone within the organisation
- Membership is voluntary

Merits

- It does not follow the scalar chain so there can be faster spread of information
- Informal communication fulfils social needs of the employees thus motivating them and enhancing productivity
- Informal organisation can be used by top managers to get accurate feedback on employee opinions on various policies and plans.
- The informal organisations can be strategically used by management to assist in achieving the objectives of the formal organisation. They can be used in the following ways
- The knowledge of informal groups can be used to gather support of employees and to improve their performance. For instance, convincing leaders of an informal group about a policy change will go a long way in minimising employee resistance
- Through grapevine important information can be transmitted quickly. The grape vine can also be used to test the employee reaction to a particular action by management, if the resistance is severe management can distance itself from the communication
- Cooperating with informal groups enables managers to skilfully take advantage of both formal and informal organisations e.g. managers can build teams of people belonging to the same informal groups.

Demerits

- It usually spreads rumours which can be misleading to employees
- The structure does not follow a systematic working order, therefore it does not form a structure for smooth working of the organisation
- It may bring negative results to the formal organisation in cases where the informal group is not in agreement with the management policies. It forms a basis for resistance.

MOTIVATION AND LEADERSHIP

Motivation

Motivation is defined as, those factors that affect human behaviour. Humans do not just take action but they take action for a particular reason which is therefore termed motivation. Managers have to understand the needs of the subordinates as they greatly influence their behaviour at the work place. It is assumed that employees work for the purpose of satisfying a number of needs which are discussed below

Maslow's hierarchy of needs

- Motivation is driven by unsatisfied needs therefore managers must understand the needs of the individual employee
- Abraham Maslow a psychologist in 1943 brought forward the following hierarchy of needs which humans seek to satisfy
- The needs are in ascending order i.e. humans seek to satisfy the needs on the bottom of the pyramid first

- Maslow argued that human actions are directed towards goal attainment (satisfying specific needs)
- Maslow's hierarchy of needs states that we must satisfy each need in turn starting with the physiological needs, only when the lower order need has been satisfied can a person seek to satisfy a higher need.

1. Physiological/ biological needs These needs are necessary to sustain life e.g water, shelter and food. If such needs are not satisfied then one's motivation will arise from the quest to satisfy these needs. The theory suggests that the absence of higher needs is not felt when such needs are not satisfied. Such needs can be provided at the workplace situation by financial rewards which enable the person to satisfy these needs. 2. Safety/ security needs Once physiological needs are met, ones effort shifts to security needs. The person seeks to be free from physical and emotional harm. These needs can be satisfied by offering job security, medical insurance, working in a safe environment (protective clothing) and savings.
3. Social needs

   When physiological and safety needs are satisfied social needs become important. Social needs are the first higher order needs and they relate to the interaction with other people e.g. superiors, colleagues and other stakeholders. These include the need for friends, need for belonging and need to be loved. These needs can be satisfied by social gatherings, informal relationships, refreshing and
   other sporting activities
4. Esteem needs After the satisfaction of the three bottom needs a person seeks to achieve internal and external esteem needs. Internal esteem needs are those related to self esteem such as self respect and achievement. External esteem needs are those that include social status, reputation and recognition. These needs can be satisfied by involving employees in decision making, decentralisation, recognising hardworking staff members e.g. employee awards. 5. Self actualisation It is the quest of reaching one's full potential as a person. This need can never be fully satisfied because as one grows psychologically there are always new opportunities to continue to grow. According to Maslow very few individuals reach this level, however, self actualised people tend to have needs such as truth, justice, wisdom and meaning. Such needs are satisfied by people conducting researches and further studies e.g.

professorship. Such needs are difficult to satisfy at the work place.

REASONS PEOPLE WORK

There are many reasons why people work. One person may work for one reason and another person for another. If one were to ask someone why he/she works, his/her first answer might be, "to earn money." While this may be true for many people, there are some rich people who also work very hard and they surely do not need the money. They must work for other reasons. Although people work for many reasons some of the more important reasons are as follows:

Earning Money

People need to work to make a living.
Therefore, it is necessary to earn money to buy the things that are needed and wanted. Some of the things that are bought are necessary for life and others add happiness and enjoyment to life. It should be remembered that the amount of money a person earns from an employer will depend on what the worker has to offer the employer.

Security

It is only natural that people are somewhat worried about the future. Most people are concerned about how long they will be able to keep their jobs or what might happen to them and their families if they were unable to work. This means people work to generate savings that could be used when the worker is out for any reason. The reason people buy insurance of all kinds is that they are concerned about the future. Work that is done today may provide money that can be used in the future. Therefore, some people work to provide this security.

Gaining Experience

Sometimes people work at a job so that they can gain some experience and get a better job.
A person might start out as a dishwasher in a restaurant. A good worker will gain experience on the job and might move up to a cook's helper in the kitchen. Work is necessary so he/she can gain experience on the job. This experience may help a person become a more valuable employee and provide a chance for advancement on the job.

Feeling Important

All people like to feel they are needed. This gives them a purpose to life. Work by one person provides a service or product for another person. For instance, a teacher feels to be making an important role in educating members of the society. If people take pride in their work, they may find it a very enjoyable part of their lives.

Achievement

Most people want to achieve something during their lifetime. Working provides a way for them to get the things they want out of life. It is important for workers to set some goals for their future work. Workers should know what they want to achieve and then set out to achieve it e.g. an accounting student may have a dream to become a chartered accountant.

Recognition

All people like to receive credit for what they do. Receiving credit and recognition for doing good work makes anyone feel good. It also makes people try to work harder and do better. Next to the need to earn a living, perhaps the reason most people work is to receive some form of recognition.

Social Values

The work that a person does is valuable to society. The work a doctor does benefit not only the doctor, but also the people who are treated. Some people even work without pay for the benefit of others e.g. volunteers with humanitarian organisations like Red Cross and Red Crescent.

Keeping Busy

Without work, some people would find it difficult to find enough to do. Work provides an outlet for their energy. There are times when older workers would prefer not to retire. Their jobs give them a chance to keep busy.

It is easy to see that finding a job and doing that job to the best on one's ability is an important part of life. People work for many different reasons, from wanting money to helping others. It is very important for a manager to understand the probable reasons why each member of the organisation is working, these reasons can be used to ensure that the worker is motivated.

MOTIVATION THEORIES

A number of theories have been put forward by psychologists to explain the behaviour of employees at the workplace. These are discussed below.

Maslow's hierarchy of needs

Maslow identified 5 levels of needs which we have discussed previously. The theory can be practically applied in worker motivation as follows.

Application of the theory

Physiological needs

- These needs can be satisfied by employment income, therefore managers must offer sufficient remuneration to pay for food, accommodation and supply their families with the necessities of life.
- According to Maslow, employees cannot be motivated if the income they get from employment does not give them access to the necessities of life.

Safety needs

- Workers need to feel safe at the work place, this can be done by providing protective clothing, this protects the employee from work related injuries especially for blue coaler jobs.
- Contracts of employment provides job security to the employee as he/she is guaranteed employment under stipulated conditions for a period of time e.g. without a contract the employee has to live with the risk of losing the job without notice or the variation of employment terms by the employer.
  Employer can make insurance contributions on behalf of the employees e.g. pension and medical aid. The employee is guaranteed income in the event of a job loss or retirement. This makes the employee feel secure
- Management can use coercive power sparingly as it adversely impacts on the safety of the employees, frequent threats to employees can demotivate the workers.

Social needs

- Working in teams can help to motivate the employees, this is in line with Fayol's fourteen principles
- Establishing good communication channels go a long way in motivating the workers
- Forming of sporting clubs e.g. soccer clubs. This enables employees to satisfy their social needs e.g. Chicken inn FC.
- Non discriminatory practices by management go a long way in motivating the employees. In organisations where discrimination is rife those individuals being discriminated may lack confidence and become less productive

Esteem needs

- Managers must show appreciation for outstanding performance, this can be done by having annual awards to hardworking employees e.g. employee of the year awards
- Managers can delegate some tasks to their subordinates
- The nature of the job design must be challenging, management can set challenging objectives
- Encourage employee participation through democratic decision making processes.

- Offer training to employees who require it.

Self actualisation

- The employee can be given challenging tasks and the autonomy to solve those problems
- Encourage creativity of the worker in those situations
- Self actualised workers inspire others e.g. the company's managing director can inspire other employees

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HERZBERG'S TWO FACTOR THEORY

Herzberg identified two set of factors relevant in the motivation of employees. He classified these factors into hygienic factors and motivating factors.

Hygienic factors

- These factors demotivate the employee if they are not present but their presence does not motivate the worker to work harder.
- Examples of these factors are salary, over-supervision by managers and working conditions
- Managers have to ensure that the hygienic factors have been provided so as to get rid of dissatisfaction. However, the provision of such factors do not mean that the worker is satisfied
- Herzberg argued that the absence of dissatisfaction does not mean that the workers are satisfied, this is because the two are caused by two distinct factors. Therefore the two cannot be treated as opposites.
- Hygienic factors are synonymous with the lower level needs on the Maslow's Hierarchy of needs

They can be provided in the following ways

- Pay/ salary: The pay structure should be appropriate and reasonable. It must be fair and competitive to those in the same industry in the same domain
- Company Policies and administrative policies - The company policies should not be too rigid. They should be fair and clear. It should include flexible working hours, dress code, breaks, vacation, etc. Fringe benefits - The employees should be offered health care plans, benefits for the family members, employee help programmes, etc.
- Physical working conditions - The working conditions should be safe, clean and hygienic. The work equipments should be updated and well-maintained.
- Interpersonal relations - The relationship of the employees with his peers, superiors and subordinates should be appropriate and acceptable. There should be no conflict or humiliation element present.
- Job Security - The organization must provide job security to the employees.

Motivational factors

According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. Motivational factors include:

- Recognition - The employees should be praised and recognized for their accomplishments by the managers.
- Sense of achievement - The employees must have a sense of achievement. This depends on the job. There must be a fruit of some sort in the job.
- Growth and promotional opportunities - There must be growth and advancement opportunities in an organization to motivate the employees to perform well e.g. opportunities for promotion
- Responsibility - The employees must hold themselves responsible for the work. The managers should give them

ownership of the work. They should minimize control but retain accountability.

- Meaningfulness of the work - The work itself should be meaningful, interesting and challenging for the employee to perform and to get motivated. This is done through job enrichment and job rotation.

Limitations of Two-Factor Theory

1. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
2. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.

Application of the Theory

PThe theory implies that the managers must stress upon guaranteeing the adequacy of the hygiene factors to avoid employee dissatisfaction. Also, the managers must make sure that the work is stimulating and rewarding so that the employees are motivated to work and perform harder and better. This theory emphasize upon job-enrichment so as to motivate the employees. The job must utilize the employee's skills and competencies to the maximum. Focusing on the motivational factors can improve work-quality.

TAYLOR'S SCIENTIFIC MANAGEMENT

Taylor put forward the idea that workers are motivated mainly by pay and did not consider non financial methods of motivation. He viewed a worker as an economic man who is motivated solely by monetary rewards. He made the following arguments:

- Workers do not naturally enjoy work and so need close supervision and control
- Therefore managers should break down production into a series of small tasks
- Workers should then be given appropriate training and tools so they can work as efficiently as possible on one set task.
  Workers are then paid according to the number of items they produce in a set period of time- piece-rate pay.
- As a result workers are encouraged to work hard and maximise their productivity.

Application of scientific management in motivation

Taylor's approach has close links with the concept of an autocratic management style(managers take all the decisions and simply give orders to those below them) and McGregor's Theory X approach to workers (workers are viewed as lazy and avoid responsibility). This has the following consequences

- Performing the same task repetitively will end up becoming monotonous and boring, this can demotivate the worker and adversely impact on productivity
- It is improper to assume that workers are motivated solely by financial rewards as it can be observed in reality that people work for other reasons which are not financial.
- The piece rate system is difficult to apply in some businesses especially in the service sector
- Strict supervision of employees can adversely impact on employee confidence and morale
- Taylor identified the importance of why workers must receive adequate training. This is very important in improving productivity and worker motivation.

MAYO'S HUMAN RELATIONS THEORY

Elton Mayo believed that workers are not just concerned with money but could be better motivated by having their social needs met whilst at work (something that Taylor ignored). He introduced the Human Relation School of thought, which focused on managers taking more of an interest in the workers, treating them as people who have worthwhile opinions and realising that workers enjoy interacting together. Mayo made the concluded that workers are best motivated by:

- **Better communication** between managers and workers
- **Greater manager involvement** in employees working lives
- **Working in groups or teams.**

In practice therefore businesses should reorganise production to encourage greater use of team working and introduce personnel departments to encourage tgreater manager involvement in looking after employees' interests. His theory most closely fits in with a democratic style of management.

MOTIVATION IN PRACTICE

When examining methods of motivation that can be applied in the workplace, we sub-divide them into financial and non-financial methods. Financial methods directly involve monetary rewards e.g. bonuses, pay rises, pensions etc. Non-financial methods, though perhaps indirectly bringing monetary rewards, are targeted at providing psychological benefits for workers. It must be remembered that both financial and non-financial methods have costs to the employer, either through direct costs such as extra pay, or indirectly through the provision of training or management time spent.

Financial methods of motivation

Herzberg emphasised the importance of hygienic factors, he once said 'if you pay peanuts, you get monkeys'. This shows the importance of financial methods of motivation discussed below.

Piece rate pay: The most basic method of payment is a piece rate. When a piece rate is paid workers are paid for each item they produce or for each task completed. This does have advantages in that workers will work as fast as they can to maximise their income, and payment is only made when work is completed. But there are disadvantages for both employer and employee. For the employer there must be a great deal of supervision and checking of quality as workers are motivated to achieve speed of output not quality of output. From the employees point of view there is no guarantee of income and incomes are often very low, no matter how fast they work.

Fringe Benefits: Other forms of financial motivation include company cars, pension schemes, sickness benefits, subsidised meals and travel, and staff discounts. These are often grouped together under the heading fringe benefits. Some of these fringe benefits can be regarded as essential in encouraging the right applicants for certain types of vacancies. For example a company car is a necessity in financial service firms for anyone involved in sales, and senior management in many companies would expect both an upmarket car and private health care.

Bonus schemes: There are a wide variety of bonus schemes available, each designed to be suitable for different employees doing different jobs. These schemes include:

- **Sales bonus**. This is normally paid if a sales target has been reached. For sales people this may make up a significant part of their salary.
- **Performance bonus**. This can be paid to an individual or on a group or factory wide basis, and is often paid for reaching targets of output and quality. This method of payment is an important part of Human Resource Management.
- **Christmas bonus.** Often called a 13th month's salary, paid for loyalty to the business.
- **Profit share**. Some businesses will pay a percentage of profits to employees. The amount that they receive will normally depend on salary and length of service, so rewarding those that had been with the company longest, more.

Profit related pay. Profit related pay links part of an employees' income to the profits of a company. Those who receive profit related pay will earn less if the company profits decline and more when the entity is profitable. This method

is sustainable to the firm as employees are paid in accordance to profitability.
Employees are motivated to work hard to improve the entity's profits thus achieving goal congruency.

Commission: Employers pay employees a sales commission to incentivize the employees to produce more sales and to reward and recognize people who perform most productively. The sales commission has proven to be an effective way to compensate sales people and to promote more sales of the product or the service. The employee is paid a specific portion of his or her sales e.g. 3% of sales revenue generated by the employee.

Employee stock option: It is a stock option granted to specified employees of a company. It offers the options holder the right to buy a certain amount of company shares at a predetermined price for a specific period of time. This motivates the employees to work for the benefit of the organisation since they are to become owners of the entity.

Non-financial methods of motivation

The use of non-financial motivation methods is an attempt by employers, to apply ideas behind the theories of Mayo, Maslow and Hertzberg. Examination of these theories has shown us that motivation to achieve quality of output is best achieved through satisfaction of higher needs (Maslow), awareness of the role of groups in the workplace (Mayo), and the need to provide Motivators (Herzberg). The non-financial methods of motivation outlined below can be linked to one of more of these theories.

Job Enrichment: This means giving workers more control over the tasks that they complete. Allowing workers to complete tasks that have a meaning, and are complete in themselves. For example a worker who has a job fitting the tube to a TV, may have his job enriched by testing that the tube works, and being able to make adjustments so that the required level of quality is achieved. The ability to do this range of tasks means that the worker becomes more committed to achieving quality. The cost associated with this method, are of course, the time spent training the worker to complete these extra tasks. Effective job enrichment depends upon workers having interesting tasks to complete. Job design is a key part of Herzberg's ideas.

Job Enlargement: Job enlargement means increasing the number of tasks completed by a worker. So a secretary previously employed to answer calls might now have duties, which include, filling, letter writing etc. This adds interest to the job, and involves the employee in a more complete role within the business.

Communication: Communication is a key part of motivation, and effective use of methods of communication is a complex management issue.

Empowerment: This means giving workers the power to control their own jobs, make decisions, and implement their own ideas. It is often used effectively in decentralised organisations and democratic leadership styles.

Quality Circles: These are groups of workers that meet on a regular basis to discuss problems in the manufacturing or service provision process and offer solutions. They may involve groups of workers from the same department, or come from a variety of disciplines. They may include designers, buyers, and production workers.

Training: The provision of a formal training scheme is important. As Herzberg stated, without training, workers will not be able to fulfil their potential. Training can be on-thejob, learning by doing, or off the job, such as studying at a college. Taylor also emphasised the importance of training in an effort to improve productivity.

Growth opportunities: *Employees will always perform at their best when the environment is conducive to growth.* The potential for growth is a huge motivational difference maker. Employees can be motivated by opportunities for promotions, professional advancement by getting more experience and personal growth.

Status: it is a socially defined position or rank to groups or group members by others. It is evident that the society has different classes. Status is an important factor in understanding human behaviour because it is a significant motivator. For instance, when one has been promoted his/her status would improve thus boosting morale and productivity.

Positive effects of motivation

The following features show that the staff members are motivated

- Increased productivity
- Reduced accidents
- Reduced wastage of materials
- Minimum errors
- Reduced conflicts
- Workers seek responsibility

LEADERSHIP

- It is the art of influencing people to perform task related activities ***willingly***.
- Willingness is a key aspect in defining leadership, because leaders do rely mainly on charismatic power to motivate their followers to work towards attaining a specific goal.
- A good manager must possess good leadership qualities because a good leader is a great motivator.
- Leadership involves:
  - establishing a clear vision
  - sharing that vision with others so that they will follow willingly
  - providing the information, kn owledge and methods to realize that vision
  - coordinating and balancing the conflicting interests of members and stakeholders

Qualities of a good leader

- Respect for every member of the organisation e.g. employees at all levels.
- Honest and trustworthy
- Resistance to change

On the other hand, the following signs show that the workforce is demotivated

- Reduced productivity
- Accidents at workplace
- Increased wastage of materials
- Poor quality work
- Dysfunctional conflicts
- Workers avoid responsibility
- High rates of absenteeism
- High labour turnover i.e. increased number of employees leaving their jobs
- Actual or threats for industrial action
- Less or no punctuality
- Work delays i.e. missing deadlines or targets

- Self motivated i.e. seeks to satisfy higher level needs on Maslow's hierarchy. Motivated by non financial incentives
- Commitment to the growth and development of those he/she leads
- In possession good communication skills
- Ability to motivate his/her followers
- Integrity
- Vision/strategy
- Persuasion
- Adaptability
- Teamwork
- Coaching and Development
- Decision-making, ability to make quality decisions
- Planning skills

Leadership styles

'Leadership style' is the general attitude and behaviour of a leader, particularly in relation to his or her colleagues and team members.

There are a number of styles of leadership:

1. **Autocratic**

This is often referred to as an authoritarian leadership style, and it basically means that the people at the top of an organisation make all the decisions and delegate very little responsibility down to their subordinates. It can cause much resentment and frustration amongst the workforce and it is not very common in today's business world. Its features are summarised below

- Autocratic leaders hold onto as much power and decision-making as possible
- Communication is top-down & oneway i.e. no opportunity for feedback to the leader
- Formal systems of command & control are strictly adhered to
- Minimal consultation as the manager single handedly makes the decisions
- Use of rewards & penalties to shape human behaviour (motivation tool)
- Very little delegation
- Most likely to be used when subordinates are unskilled, not trusted and their ideas are not valued

Merits

- An autocratic style of leadership can be effective in work environments where decisions need to be made quickly. The sole responsibility rests with the leader, and he/she makes the decision without the need to consult others. This saves precious time which happens to be a non renewable resource
- The leader keeps a close watch on the activities of the workers. This can result in increased productivity and speed, as workers who fall behind are quickly identified and corrective measures are taken. Quality may improve, as the employees' work is monitored constantly. Time wasting and the need to waste resources are also reduced.
- This style is very effective when dealing with inexperienced or demotivated staff. It is greatly aligned to McGregor Theory X
- The style strongly motivates the leaders who dictate the pace within the organisation. It gives status to the leader and enables the leader to satisfy higher order needs on Maslows' hierarchy of needs
- Effective chain of command is crucial for the success of any organisation as highlighted by Fayol. This style is mostly effective in organisation where chain of command is crucial such as military, air force like organization.

Demerits

- This style is widely criticised for its negative motivational consequences as it does not involve subordinates in the decision making process thus failing to recognise their importance in the decision making process
- Autocratic leaders take full responsibility for the execution of the tasks at hand. This puts pressure on the manager as he/she is reluctant to delegate. Such a scenario may have adverse consequences to the organisation and the manager in his personal capacity e.g. work related stress.
- May be the major reason for resistance to change in cases where subordinates are unhappy with the decisions made
- One way communication is counterproductive as it cannot be ascertained in time if the intentions of the leader are properly understood.

2. **Democratic.**

This involves managers and leaders taking into account the views of the workforce before making decisions and implementing them.

This can lead to increased levels of morale and motivation amongst the workforce, but it can also result in far more time being taken to achieve the results since many people are involved in discussing the decision. This type of leadership has the following characteristics:

- Focus of power is more with the group as a whole than individual members
- Leadership functions are shared within the group as opposed to the leader executing

them in person. This implies the presence of delegation.

- Employees have greater involvement in decision-making, all employees affected by a decision are consulted before the it is made
- Two way communication is an important feature with democratic leadership, the manager gets feedback from the subordinates
- Emphasis on delegation and consultation although the leader still makes the final decision, this positively affects the quality of the decisions made as he/she is in a better position to make informed decisions
- Perhaps the most popular leadership style because of the positive emotional connotations of acting democratically, it satisfies higher level needs on Maslow's hierarchy of needs. It can be viewed as a non financial motivational tool
- A potential trade-off between speed of decision-making and better motivation and morale. Consultations are time consuming even though they motivate there is need for the manager to strike a sustainable balance between time spent and the benefits.
- Likely to be most effective when used with skilled, free-thinking and experienced subordinates.
- It can only be effective as a motivational tool only in cases where the lower level needs according to Maslow or hygienic factors according to Herzberg are satisfied

Merits

- Exchange of ideas among subordinates and leader improves job satisfaction and morale of the subordinates. The employees will develop a positive attitude towards their jobs as they feel their contributions are needed for the success of the organisation

- Human values get their due recognition which motivates the subordinates and reduces resistance to change as the employees would have been involved in the process of change. Workers also develop a greater sense of self - esteem, due to importance given to their ideas and their contributions.

- Increased productivity as motivation minimises counterproductive behaviours such as labour absenteeism, material wastage, work accidents, missing of targets and reduces the labour turnover rates.

- It is an effective in finding solutions for complex problems which are non routine by their nature.

- The quality of decision is improved through consultation as managers can make informed decisions. Consultation enables managers to assess the probable impact of a decision to the various stakeholders before it is made.

- The leadership style induces confidence, cooperation, and loyalty among workers. This minimises dysfunctional conflicts thus going a long way in ensuring unit of direction, which was highlighted in Fayols' principles

Demerits

- This approach is very time consuming and too many view-points and ideas may take the-solid decision more difficult and may be a source of frustration to impatient management.
- The democratic leadership requires some favourable conditions in that the labour must be literate, informed and

organised. This is not always possible.

- This approach assumes that all workers are genuinely interested in organisation and that their individuals are goals successfully fused with the organisational goals. This assumption may not always be valid.
- There must be a total trust on the part of management as well as employees. Some employees may consider this approach simply an attempt to manipulate them. Accordingly the employees must be fully receptive to this approach to make it meaningful.
- Some group members may feel alienated, if their ideas are not accepted for action. This may create a feeling of frustration and ill-will.
- Some managers maybe uncomfortable with this approach because they may fear erosion of their power base and their control over labour.
- This approach relies heavily on incentives and motivation of recognition, appreciation, status and prestige. The labour may be more interested in financial incentives instead of prestige.

When employees are encouraged employees to give their opinions on company issues, they provide a variety of solutions to choose from. Participative leadership empowers employees to use their creativity to develop more productive work processes and make the company more efficient (innovation).

Laissez-faire.

This is where employees are set objectives, and then they have to decide how best to achieve them using the available resources. This method of leadership can result in high levels of enthusiasm for the task in-hand, but it can at times rely too much on the skills of the workforce.

- The term Laissez-faire means to “leave alone”, implying employees are given absolute autonomy with minimal interference from management
- Leader has little input into day-to-day decision-making
- Managers / employees have freedom to do what they think is best under the circumstances.
- Often criticised for resulting in poor role definition for managers as the subordinates are fully empowered to make decisions which is a traditional role of managers.
- Effective when staff are ready and willing to take on responsibility, they are motivated, and can be trusted to do their jobs

Merits

Laissez-faire leadership styles tend to work best near the top of organizational hierarchies, where executives build teams of experts such as directors and give them wide latitude to run their departments. Teams focused on research and development, conceptual or creative projects require autonomy. A positive laissezfaire leadership style has the following merits

- Allows experts to function productively and challenges them to take personal responsibility for their achievements and failures
- Motivates people to perform optimally and gives them latitude to make correct decisions that might not be supported in a more structured environment.
- Reinforces successful performance and leads to a higher retention of experts who thrive in creative environments that support autonomous decision-making
- Reduces supervision costs as minimal supervision is applied
- Reduced workload for the leader **Demerits**

When laissez-faire leadership is used inappropriately in organizations, projects or settings, it can create more problems than it resolves. If groups or team members lack sufficient skills, experience or motivation to complete projects, the organization suffers in the following ways:

- The style may make it difficult for senior management to coordinate the various efforts
- Results in a lack of accountability for organizations, groups or teams and failure to achieve goals
- Leads to ineffective time management by teams, resulting in ambiguous objectives and missed deadlines

Summary

As a generalisation, in most business sectors there has been a gradual shift away from autocratic leadership. Possible reasons for this include:

- Changes in society's values
- Better educated workforce
- Focus on need for soft HR skills
- Changing workplace organisation
- Greater workplace legislation
- Pressure for greater employee involvement

A manager has to be flexible in his/her approach to leadership i.e. must be able to chose the most appropriate style under the circumstances e.g. use autocratic leadership in times of emergency and use democratic style where changes are imminent.

McGregor Theory X and Y

McGregor developed two theories of human behaviour at work: Theory and X and Theory Y. He did not imply that workers would be one type or the other. Rather, he saw the two theories as two extremes - with a whole spectrum of possible behaviours in between. These theories are very useful in determining the leadership style to be applied y the manager.

Theory X workers could be described as follows:

- Individuals dislike work and avoid it where possible. Therefore, people must be controlled and threatened for them to work hard enough
- Individuals, who lack ambition, dislike responsibility and prefer to be led.
- Individuals desire security above everything

The management implications for Theory X workers were that, to achieve organisational objectives, a business would need to impose a management system of coercion, control and punishment. This is in line with the ***autocratic*** leadership style.

Theory Y workers were characterised by McGregor as:

- Consider effort at work as just like rest or play
- Ordinary people who do not dislike work. Depending on the working conditions, work could be considered a source of satisfaction or punishment
- Individuals seek responsibility if they are motivated

The management implications for Theory X workers are that, to achieve organisational objectives, rewards of varying kinds are likely to be the most popular motivator. The challenge for management with Theory Y workers is to create a working environment where workers can show and develop their creativity. This environment can be created by using a ***democratic*** leadership style which enables subordinates to satisfy higher level needs on Maslow's' hierarchy of needs.

Difference between leadership and management

Managing and leading are two different ways of organizing people. **Leadership** is setting a new direction or vision for a group that they follow i.e., a leader is the spearhead for that new direction. On the other hand, **management** controls or directs people/resources in a group according to principles or values that have already been established. The manager uses a formal, rational method whilst the leader uses passion and stirs emotions through charisma

The following differences can be noted which distinguish leadership from management

- Leaders rely on influence through charismatic power while managers have authority. Therefore, leaders have followers who follow willingly while managers have subordinates

- Management involves controlling organisational activities to achieve a goal while leadership refers to the individuals' ability to influence, motivate and enable others to contribute towards the attainment of organisational goals

- Leaders are innovative by nature while managers try to maintain status quo. Managers thrive to conform to the pre set standards while leaders create change. Leaders actually challenge the status quo seeking room for improvement. In other words managers maintain while leaders develop.

- Leaders are people oriented implying that they base their conduct mainly on the motivation of their followers. On the other hand managers are task oriented, implying that they are mainly concerned by the accomplishment of the task at hand regardless of the methodology

- Leaders have followers (voluntary) while managers have subordinates (chain of command). Leaders instil trust between them and their followers

- Leaders are concerned about leading people i.e. they do not distinguish themselves much from their followers. This motivates their followers. Managers are primarily concerned by managing work.

- Leaders have a high appetite for risk, therefore they create change. On the other hand managers react to change because they are generally risk averse.
- The manager focuses on systems and structure; the leader focuses on people.
- The manager does things right; the leader does the right thing

To sum up, leadership and management must go hand in hand. They are not the same thing. But they are necessarily linked, and complementary. Any effort to separate the two is likely to cause more problems than it solves. In light of these differences, leadership is more complex then management. It is important for a manager to posses good leadership qualities as motivation appears to be the key factor that distinguishes leaders from managers. It is therefore important to consider the key leadership positions within an organisation.

Leadership roles in business

- Various people play leadership roles in the organisation. Some of the roles are formal e.g. managers, directors and supervisors
- There are some individuals who lead informal organisations these are informal leaders.
- Informal leadership is the ability of a person to influence the behaviour of others by other means other than formal authority conferred by the organisation through its rules and procedures.
- Informal leaders influence the organisational activities because the informal organisations are important in the activities of the organisation.
- Informal leaders are key in the execution of organisational strategy as they play a key role in influencing their colleagues in matters to do with organisational activities
- Informal leaders do not posses any formal authority and they emerge due to their personal traits.
- These informal leaders are more likely to be nominated to represent fellow workers on different platforms

MANAGEMENT

Management is the process of reaching organizational goals by working with and through people and other organizational resources.

Management has the following 3 characteristics:

1. It is a process or series of continuing and related activities.
2. It involves and concentrates on reaching organizational goals.
3. It reaches these goals by working with and through people and other organizational resources.

MANAGEMENT FUNCTIONS:

The 5 basic management functions that make up the management process are described in the following sections:

1. PLANNING
2. ORGANIZING
3. LEADING
4. CONTROLLING
5. COORDINATING

PLANNING:

Planning involves choosing tasks that must be performed to attain organizational goals, outlining how the tasks must be performed, and indicating when they should be performed.

Planning activity focuses on attaining goals. Managers outline exactly what organizations should do to be successful. Planning is concerned with the success of the organization in the short term as well as in the long term.

ORGANIZING:

Organizing can be thought of as assigning the tasks developed in the planning stages, to various individuals or groups within the organization. Organizing is to create a mechanism to put plans into action.

People within the organization are given work assignments that contribute to the company's goals. Tasks are organized so that the output of each individual contributes to the success of departments, which, in turn, contributes to the success of divisions, which ultimately contributes to the success of the organization.

LEADING:

Leading is also referred to as motivating, influencing or directing. leading can be defined as guiding the activities of organization members in the direction that helps the organization move towards the fulfilment of the goals.

The purpose of influencing is to increase productivity. Human-oriented work situations usually generate higher levels of production over the long term than do task oriented work situations because people find the latter type distasteful.

CONTROLLING:

Controlling is the following roles played by the manager:

1. Gather information that measures performance
2. Compare present performance to pre established performance norms.
3. Determine the next action plan and modifications for meeting the desired performance parameters.

Controlling is an ongoing process.

COORDINATING:

The coordinating function of leadership controls all the organizing, planning and staffing activities of the company and ensures all activities function together for the good of the organization. Coordinating typically takes place in meetings and other planning sessions with the department heads of the company to ensure all departments are on the same page in terms of objectives and goals. Coordinating involves communication, supervision and direction by management.

NEGOTIATION

Managers also play the role of entering into discussions on behalf of the organisation. Management represent the organisations' interests and act as agents for the organisation.

ADVANCED LEVEL BUSINESS STUDIES

MANAGEMENT THEORIES

Max Weber bureaucratic management theory

The Max Weber theory of management, sometimes called bureaucratic management theory, is built on principles outlined by Frederick Taylor in his scientific management theory. Like Taylor, Weber advocated a system based on standardized procedures and a clear chain of command. Weber stressed efficiency, as did Taylor, but also warned of the danger of emphasizing technology at the expense of emotion.

One primary difference between Max Weber and management, and other theories of management, is that while Weber outlined the principles of an ideal bureaucracy, he also pointed out the dangers a true bureaucracy could face.

Key elements of the Max Weber management theory include:

- Clearly defined job roles
- A hierarchy of authority
- Standardized procedures
- Meticulous record-keeping
- Hiring employees only if they meet the specific qualifications for a job

Advantages

- Appointment, promotion and authority were dependent on technical competence and reinforced by written rules and procedures of promoting those most able to manage rather than those favoured to manage.
- The adoption of bureaucratic type of management systems allow organisations to grow into large complex organised systems that are focused towards formalised explicit goals.
- Promotes consistency thus making organisation activities more predictable. Ensures continuity as business activities are handled in a predetermined way. This also goes a long way in avoiding and detecting fraud and errors.

Disadvantages

Subsequent analysis of the theory have identified many disadvantages:

- Tendency for organisations to become procedure dominated rather than goal dominated.
- Tendency for heavily formalised organisational roles to suppress initiative and flexibility of the job holders.
- Rigid behaviour by senior managers can lead to standardised services that do not meet the needs of the client.
- Rigid procedures and rules are demotivating for the subordinates that work in the organizations.
- Slow decision making due to bottle necks inherent to the system

Other management theories already covered

- Scientific management – Taylor
- Hierarchy of needs – Maslow
- Two factor theory – Herzberg
- Theory X and Y - McGregor -
Human relations model – Mayo
- Principles of management – Fayol

Human Resource Management It is a proactive approach to
- Human resources management is management as opposed to reacting to defined as a system of activities and the environmental changes strategies that focus on successfully It assess the compatibility of the HR managing employees at all levels of an strategy with the overall business organisation to achieve organisational strategy e.g. if the overall strategy is to goals. gain market share by improving

- Employees are the human resources of product quality, the HR strategy can an organisation and its most valuable be aligned towards hiring qualified asset staff to take part in the production process.

Purpose and functions of HRM It helps to ensure that the business complies with the laws of the

land An organisation cannot build a good team of It helps the organisation to achieve its working professionals without good Human goals with efficiency since the HR plan Resources. The key functions of the Human is aligned to the overall business

Resources Management (HRM) team include strategy. This minimises sub optimal human resource planning, recruiting people, behaviour.

training them, performance appraisals,

Recruitment motivating

employees as well as workplace

communication, workplace safety, and much Recruitment is a process of finding more. The beneficial effects of these functions and attracting capable applicants for are discussed here: employment.

- The process begins when new recruits

Planning future manpower requirements are sought and ends when their applications are submitted as a way to

- HR planning is a process that signal their interest in the job. identifies current and future HR needs

  of an organisation required for it to The process is initiated when the need achieve its goals.

  for a new employee is identified within

the organisation HR

planning serves as a link between the HR management and the overall After a vacancy has been identified, a business strategy. job description and a person

specification have to be prepared

- The HR department is therefore responsible for ensuring that the A **job specification/ description** is organisations' human resources are a detailed statement of the employees able to execute the business strategy duties, responsibilities and specifies with efficiency. the workers position on the

organisational chart. For example, a Serves to ensure that staffing is sufficient, qualified and competent teacher's job description can be to teach Maths in all form 1 classes, enough to achieve the organisational ensure that pupils are disciplined, give objectives. pupils 4 written exercises a week,

- HR planning is vital for maintaining a timely mark pupils work, e.t.c. The job a competitive advantage and reducing specification also has to state the employee turnover in an organisation nature of the employment contract i.e.
- Planning is also important in finding permanent or temporary, conditions of sustainable ways to get rid of less service and applicable remuneration. productive workforce e.g. ageing
- A **person specification** gives a workforce

detailed account of the minimum

Merits of HR planning skills, qualifications and experience

- Assists in resource mobilisation to which must be possessed by the enable the organisation to attain its candidate for him/her to be able to objectives perform the duties specified in the job

  specification. For instance, a teaching ○ post may require someone with a minimum of a diploma in education and at least two years working experience in a similar position

- When the job description and the ○ person specification are out then an

advertisement for the vacancy is made.
The advert invites all the interested candidates who possess the minimal requirements to apply for the vacancy.

- The organisation seeks to fill **External recruitment** the vacancy from within its ○ The business looks to fill the existing workforce vacancy from any suitable applicant outside the organisation

Merits

- The selection team may possess better knowledge of the applicants, this enables ○ It brings new ideas into the them to select the best organisation. This is essential candidate for the job for the success of the ○ It motivates internal staff to organisation work harder as they are ○ It results in a higher number awarded the opportunity for of applicants, implying a promotion bigger pool from which to ○ Applicants are familiar with select the best candidate. The the organisation's internal higher the number of faster processes therefore reduced need for induction training The method is cost efficient as the vacancies can be communicated using internal communication methods e.g. notice boards or email. These are cheaper methods of communication
- It reduces the rate of labour turnover as newly employed staff members are already familiar with the organisation's operations therefore less chances that they can quit their job
- The vacancies can be filled

Demerits

vacancies are filled internally It fills one vacancy by creating a new one, this can have a ripple effect which can be costly to the organisation Unsuccessful candidates can be demotivated

- The selection process is highly subjected to corrupt activities and favouritism.

It limits the number of potential applicants, which may result in the job being offered to a less deserving candidate
No new ideas are introduced into the organisation as

Merits

individuals from a pool of job applicants the greater is the chances of getting the best candidate for the job.

- The applicants possess a wider range of experience

Demerits

- The process is longer when compared to internal recruitment
- The process is more expensive due to advertising
- The selection process may not be effective enough to get the right candidate for the job

Selection

- Selection is the process of picking up

- Recruitment can be internal or external

Internal recruitment

- Internal recruitment occurs ○ when a vacancy is advertised to the current organisation staff applicants with requisite qualifications to fill the jobs within the organisation

- Selection can be described as a process of differentiating applicants in order to identify and hire those with a higher likelihood of success on the job
- The selection process involves screening, interviews, selection tests, background checks, physical examination.
- The selection process ends when a job offer is made
- The selection process is aimed at ensuring that the right candidates are hired for the job, therefore matters to do with the character of the candidate are of importance. This brings the need for background checks and interviews

Training

- Training is a process of equipping the employees within an organisation with the skills required for them to perform their jobs efficiently.
- Training increases the productivity of the workforce as it reduces losses caused by errors and lack of skill
- There are different ways in which staff members can be trained and these are on the job training and off the job training.

On the job training

- On the job training involves the employee learning by actually performing the actual task
- The training technique is hands on as employees are trained using the same equipment which they will use in the actual work
- It is highly effective when developing expertise distinctive to the employee's job. For example the specific type of machinery used in the organisation
- The employees receive training in the same environment which they operate in their day to day activities.
- Job rotation is an example on the job training

Merits of on the job training

- The method is cost effective as the training takes place at the work place. The business saves on costs of sending employees to the training venue and costs of lost production due to the trainee's absence attending training
- Employees are productive during training i.e. they make a contribution to the organisation's output during training
- The training is practical in nature, employees undergoing training are exposed to the real working environment. Therefore training is more effective

Demerits

- The work environment may not be conducive for training purposes
- Bad habits are more likely to be passed on to the trainees as they can learn by observing others
- Errors by trainees can disrupt production which can be costly to the organisation
- The effectiveness of the training programme is highly dependent on the skills possessed by the trainer and the time availed for training.
- Some training programs do not provide trainees with tangible evidence that they have been trained (certificates)

Off the job training

- This refers to training that takes place away from the work place e.g. universities and colleges

Merits

- Training is carried out by specialists
- Trainees acquire a wide range of skills which may not be possessed by

other members in the organisation, this adds variety in the organisation
  - Training takes place in a conducive environment because the training institution has to posses the proper training facilities

Demerits
  - The method is more costly to the organisation because of training fees and the worker has to e absent from work during training
  - The skills acquired are usually general and they usually require modifications to be applied in a specific organisation
  - The workers who have undergone training using the organisation's resources can leave the organisation for its competitors.
  - The training can be theoretical in nature

Induction

- It is the training that is given to employees when they first join the organisation
- The objective of induction training is to ensure that the employee becomes fully productive in the shortest possible period of time
- Induction serves to minimise or eliminate costly mistakes by new employees by familiarising them with their responsibilities and duties
- The length of the induction period varies depending on the complexity and the position of the job within the organisation
- Poorly planned induction training has negative motivational effects and can be a cause of high labour turnover amongst new staff members.
- The training programme must include the introduction to new colleagues, learning of the duties of the job, seeing the layout of the premises and learning about the organisation's internal processes

Advisory role

- The HR department plays an important role of advising other organisation functions on labour issues
- This implies that the HR department give advice to line managers on issues to do with handling conflicts, absenteeism and punctuality of employee
- The department can give advice on the legal implication of decisions suggested by other functional areas e.g. retrenchment of employees

Job evaluation

- It is a systematic process of assessing the relative importance of the job within the organisation
- The main objective of job evaluation is to determine which jobs are more important that others, this information is used to determine the remuneration system
- Factors such as the qualifications required for the position and the duties performed by the position holder in the job evaluation process
- Job evaluation must be conducted for each vacancy as it will contribute in the job design

Remuneration

- The role of the HR department in determining the level of salary and benefits for the position is a key factor in attracting and retaining productive workforce
- The rewards offered to an employee must be competitive and sufficient to cover the workers' basic needs for the worker to be motivated (Maslow & Herzberg)
- Henry Fayol in his 14 principles of management highlighted the importance of a fair remuneration system to an organisation
- The term remuneration includes other non salary benefits such as fringe benefits
- There are a number of remuneration systems but for a system to save the intended purpose it has to be transparent, fair and must be able to

reward exceptional employees for hard work

- For a remuneration system to be successful it has to be aligned to the present goals e.g. profit related pay in a profit maximising firm

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Performance Appraisal

Performance appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development.

Objectives of Performance Appraisal

1. Performance Appraisal can be done with following objectives in mind:
2. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
3. To identify the strengths and weaknesses of employees to place right men on right job.
4. To maintain and assess the potential present in a person for further growth and development.
5. To provide a feedback to employees

   regarding their performance and related status.
6. To review and retain the promotional and other training programmes.

Advantages of Performance Appraisal

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees.
   Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
3. **Employees Development:** Performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.
5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be two way as subordinates get feedback on their performance and ways to improve.
6. **Motivation:** Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his

Employment contract

- An **employment contract** is a legally binding agreement between employer and employee. Every employee has a contract with an employer.
- A written contract gives more protection to both parties and encourages parties to clarify the key duties and responsibilities of a job.
- Both parties have basic **rights** and **obligations in the contract.**

- The employer has the duty to provide work, safe working conditions and remuneration to the employee.
- The employee has the duty to obey lawful and reasonable commands, use care and skill in executing tasks assigned and to act in good faith.
- An employer is supposed to write a contract to the employee and the letter is supposed to have the following particulars:
  - Name and address of the employer
  - The period of time for which the employee is engaged
  - The terms of probation (if any).
  - The terms of an employment code.
  - Information of the employees remuneration, its manner of calculation and the intervals at which it will be paid.
  - Information on benefits receivable in the event of sickness or pregnancy.
  - Hours of work.
  - Information of any bonus or incentive production scheme.
  - Information of vacation leave or vacation pay
  - Information of any other benefits.

    It can contain any other information that pertains to the relationship between the two parties

The employment contract is a legal document that serves avoid conflicts between the employer and employee. It also acts as a way to resolve such conflicts. It can contain any other information that.

LABOUR DISPUTE SETTLEMENT

Grievances and conflicts are an inevitable part of the employment relationship. The objective of public policy is to manage conflict and promote sound labour relations by creating a system for the effective prevention and settlement of labour disputes. Labour administrations typically establish labour dispute procedures in national legislation. A key objective of effective systems is to ensure that wherever possible, the parties to the dispute resolve it through a consensus-based process such as conciliation and mediation, before reverting to arbitration and/or adjudication through a labour court.

Conciliation and mediation

Conciliation and mediation are procedures whereby a third party provides assistance to the parties in the course of negotiations, or when negotiations have reached an impasse, with a view to helping them to reach an agreement. While in many countries these terms are interchangeable, in some countries a distinction is made between them according to the degree of initiative taken by the third party. i8

Arbitration

Arbitration is a procedure whereby a third party (whether an individual arbitrator, a board of arbitrators or an arbitration court), not acting as a court of law, is empowered to take a decision which disposes of the dispute.

Specialised labour adjudication

Specialised labour adjudication is a procedure whereby ordinary courts on special labour courts settle finally any disputes over rights and obligations.

To sum up, it is preferable that the first methods of conflict resolution be applied first and the later matter methods be applied after the first methods have failed to resolve the conflict. This serves time and resources.

Discipline

Discipline is the regulation of human activities to produce a controlled performance. The real purpose of discipline is to encourage employees to confirm to established standards of job performance and to behave sensibly and safely at work. Discipline is essential to all organized group action as highlighted by Henry Fayol in his 14 principles of management. It can be described as the acceptable behaviour to be followed by an employee in and outside the organization. In general sense, following the direction of upper level supervisor or manager, making effort for the organizational goal attainment and playing the positive role in making healthy, competitive and dedicated environment in the organization is considered as maintaining the discipline. Discipline reflects the inside and outside organizational behaviour of an employee

Discipline promotes self-control, dedication, and orderly conduct. In relation to employees in Zimbabwe, discipline is generally used in a restricted sense to mean punishment. Consequently, the written procedures used to punish employees for job deficiencies are called disciplinary procedures.

The disciplinary procedures are applied in cases were discipline has not been maintained and such instances include

- Excessive tardiness
- Failure to notify of an absence
- Insubordination
- Rude or abusive language in the workplace
- Failure to follow "Departmental Rules or Policies ", i.e., not wearing safety equipment.
- Dishonesty
- Theft

Employee welfare

- Welfare includes anything that is done for the comfort and improvement of employees and is provided over and above the wages. Welfare helps in keeping the morale and motivation of the employees high so as to retain the employees for longer duration.
- The welfare measures need not be in monetary terms only but in kind. Employee welfare includes monitoring of working conditions, creation of industrial harmony through infrastructure for health, industrial relations and insurance against disease, accident and unemployment for the workers and their families.
- Labour welfare entails all those activities of employer which are directed towards providing the employees with certain facilities and services in addition to wages or salaries.

Labour welfare has the following objectives:

- To provide better life and health to the workers
- To make the workers happy and satisfied
- To relieve workers from industrial fatigue and to improve intellectual, cultural and material conditions of living of the workers.

The welfare of employees is improved by offering fringe benefits to the employees such as housing schemes and medical cover, and also creating a safe working environment. In turn the organisation enjoys increased productivity, good labour relations and reduced conflicts, low rates of labour turnover, low absenteeism and reduced accidents.

Redundancy

Redundancy is a situation where the position of employment of an employee is or will become surplus to the requirements of the Employer's business.

Generally redundancies within an organisation occur when the business is facing operational challenges or the company is looking to restructure the organisation. In these circumstances the employee may find that their position is surplus to the companies needs. Therefore, the employer will announce to the employee or employees affected that their contracts are going to be terminated as their positions will no longer exist.

Redundancies have to be for genuine commercial reasons and not for any other underlining reasons such as capability or performance issues.

Redundancies can be forced or voluntary – in the case of voluntary redundancies there are usually incentives offered to outgoing employees, such as extended garden leave or more valuable severance packages. Voluntary redundancies are designed to prevent the employer having to choose who to terminate.

Redundancies are typically preceded by consultations, which are collaborative efforts between employers, employees and other stakeholders into ways the business can save the role from redundancy through new opportunities or restructuring. Employers may legally be required to consult for a certain period of time although this often depends on how many employees are at risk of redundancy.

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to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also

Dismissal

Dismissal refers to the act of involuntary termination the employment of an employee by the employer in an organisation. It is sometimes also referred to as firing or sacking.

Dismissal is due to an employee's behaviour. Employers tend to categorise negative behaviour into misconduct and gross misconduct. Gross misconduct typically forms the basis for dismissal, and can include things like turning up to work under the influence of drugs, violence against a colleague or client, hijacking client relationships or stealing sensitive corporate materials.

LABOUR RELATIONS MANAGEMENT

Labour legislation

The government passes different laws which affect the relationship between employees and their employers. Some of the laws are there to ensure that the Government achieves its Macroeconomic objectives e.g. achieve a fair income distribution by passing a minimum wage

There are several pieces of legislation which have to be complied with by the employers and employees. Failure to comply causes legal consequences for the parties. These are discussed below

- Minimum wage: this is the lowest wage which an employer is legally allowed to pay. This protects employees from exploitation and serves to uplift the living standards for the society
- Unfair dismissal: These laws protect employees from being dismissed from work without a proper reason.
- Discrimination: these laws prohibit employers to give preferential treatment to any employee based on race, sex, religion, e.t.c.
- Working hours: the government passes laws to protect employees from working unsustainably long hours as this causes health problems
- Retrenchment: there are laws put in place to ensure that employers do not abuse the laws and dismiss workers under the cover of retrenchment
- Health and safety laws: these laws set minimal standards for ensuring that workers work in an environment free from danger and which does not negatively affect the health of the employees and third parties e.g. consumers.

Performance Appraisals

HRM encourages the people working in an organisation, to work according to their potential and gives them suggestions that can help them to bring about improvement in it. The team communicates with the staff individually from time to time and provides all the necessary information regarding their performances and also defines their respective roles. This is beneficial as it enables them to form an outline of their anticipated goals in much clearer terms and thereby, helps them execute the goals with best possible efforts. Performance appraisals, when taken on a regular basis, motivate the employees.

Maintaining Work Atmosphere

This is a vital aspect of HRM because the performance of an individual in an organisation is largely driven by the work atmosphere or work culture that prevails at the workplace. A good working condition is one of the benefits that the employees can expect from an efficient human resource team. A safe, clean and healthy environment can bring out the best in an employee. A friendly atmosphere gives the staff members job satisfaction as well.

Managing Disputes

In an organisation, there are several issues on which disputes may arise between the employees and the employers. You can say conflicts are almost inevitable. In such a scenario, it is the human resource department which acts as a consultant and mediator to sort out those issues in an effective manner. They first hear the grievances of the employees. Then they come up with suitable solutions to sort them out. In other words, they take timely action and prevent things from going out of hands.

Any organisation, without a proper setup for HRM is bound to suffer from serious problems while managing its regular activities. For this reason, today, companies must put a lot of effort and energy into setting up a strong and effective HRM.

Collective bargaining

Collective bargaining consists of negotiations between an employer and a group of employees so as to determine the conditions of employment.

- The result of collective bargaining procedures is a collective agreement.
- Employees are often represented in bargaining by a union or other labour organization.
- Collective bargaining is a key means through which employers and their organizations and trade unions can establish fair wages and working conditions.
- It also provides the basis for sound labour relations. Typical issues on the bargaining agenda include wages, working time, training, occupational health and safety and equal treatment.
- The objective of these negotiations is to arrive at a collective agreement that regulates terms and conditions of employment.
- Collective agreements may also address the rights and responsibilities of the parties thus ensuring harmonious and productive industries and workplaces.
- Enhancing the inclusiveness of collective bargaining and collective agreements is a key means for reducing inequality and extending labour protection.

Merits

- It offers workers an opportunity to voice their concerns
- Its' a process which helps to increase wages and productivity
- It's a functional way of resolving conflicts as it seeks to avoid industrial action
- The process is transparent

Demerits of Collective bargaining

- The position taken by the union may differ from what its members want
- It can be a financial burden to the employers when a union successfully bargains for higher wages
- It benefits only workers belonging to a union
- In the event of an unsuccessful bargaining process unions can call for industrial action.

Need for negotiation

Negotiations between employers and employees are necessary for a number of reasons. Such reasons include

- Negotiations are in line with modern leadership styles. Negotiations are democratic than authoritarian
- Negotiations motivate staff
- Both negotiating parties are important for the success of a business, therefore their cooperation is vital for the success of tha business
- Negotiations between employers and employees serve to minimise the risk of industrial action which is counterproductive and has negative effects to both parties

Work study & Job evaluation

- Work study is the systematic examination of the methods of carrying on activities so as to improve the effective use of resources and to set up standards of performance for activities being carried out.
- Work study aims at examining the way an activity is being carried

out, simplifying and modifying the method of operation to reduce unnecessary work or the wasteful use of resources

- It is also necessary for setting standards in terms of time required to perform a particular activity
- Work study goes a long way in enhancing productivity in organisations

Merits

- Enhances productivity
- Minimises wastage of materials
- Efficient utilisation of space
- Minimises poor workmanship
- Assists in job redesign

Demerits

- The process consumes time and resources
- Recommendations only work when the employees are willing to accept change

WORK SAMPLING

- It attempts to observe how workers perform a tasks by a process of taking a sample from work performed by one employee for evaluation purposes
- Work sampling does not require attention to each detailed action throughout an entire work cycle.

  Instead, a manager can determine the content and pace of a typical workday through statistical sampling of certain actions rather than through continuous observation and timing of all actions. Work sampling is particularly useful for routine and repetitive jobs.

Merits

- high content validity since work samples are a sample of the actual work performed on the job
- low adverse impact as production is not interrupted by the process
- difficult for applicants to fake job proficiency which helps to increase the relationship between score on the test and performance on the job
- Work sample tests use equipment that is the same or substantially similar to the actual equipment used in the actual production process
- Work sampling gives an unbiased result since workmen are not under close observation.

Disadvantages

- although useful for jobs where tasks and duties can be completed in a short period of time, these tests have less ability to predict performance on jobs where tasks may take days or weeks to complete
- less able to measure aptitudes of an applicant thus restricting the test to measuring ability to perform the work sample and not more difficult tasks that may be encountered on the job

Health and safety

- The health and safety of employees in the workplace is a major concern for employers and employees alike.
- Detailed employment laws and legislation have been created covering this area.
- These laws seek to protect the workers from injury and discomfort while at work
- Organisations are required by the law to have a written safety policy which must be communicated to all employees.
- Employees must comply with these procedures and arrangements for health and safety.
- Employers must carry out a risk assessment and then take health and safety measures in line with this assessment.

- Competent individuals must be given responsibility for health and safety arrangements. Emergency procedures must be set out. Employees must be trained and provided with clear information about risks and the steps to take in dealing with them.

Ways to achieve health and safety at work

1. A comprehensive health and safety policy
2. Training of all stall to minimise accidents
3. Motivating workforce
4. Hiring skilled staff
5. Having all equipment functioning efficiently
6. Avoid working long hours
7. Providing protective equipment
8. Using equipment of an acceptable quality
9. Offering medical and first aid facilities at work place
10. Proper lighting and ventilation of business premises

HR role in health and safety

- It is the duty of the Human resources department to ensure that employees work in a safe environment
- Poor management of matters pertaining to employees' health and safety will result in increased accidents which are costly to the business
- The organisation is held liable for all work related accidents and this puts the name of the organisation into disrepute, this adversely affects the business's ability to hire competent staff
- The ultimate consequence of poor labour turnover is an increased rate of turnover, this will adversely affect the competiveness of the business because the highly skilled workers are the ones that leave first
- It is the duty of the HR department to ensure that the health and safety policy is adhered to within an organisation and providing the resources listed above and handling any other issues pertaining to Health and safety that may arise

Difference between Training & Development

There are two principal functions of the Human Resource Management i.e. Training and Development. Both the activities aim at improving the performance and productivity of the employees.

Training is a program organized by the organization to develop knowledge and skills in the employees as per the requirement of the job.

Development is an organized activity in which the manpower of the organization learn and grow; it is a self-assessment act.

The major differences between training and development are that training is short term in nature and is concerned about developing a specific skill while development is long term in nature and is aimed at enabling an employee to be able to develop holistically.

Conclusion

After the recruitment and selection, the induction of the new employees is done in which they get introduced to the new working conditions, after that they go for training in which they get to learn many things which are the necessary requirements of the job. Whatever they learn from the training is verified by making a follow-up, in which it is examined that whether the training program is helpful or not.

After they become the actual employees of the organization, they get many opportunities for their development, like if the manager teaches the new employees something related their work, so the new employees get a chance to share their experiences or if he gets a specific task in which he has to compete himself then also he gets a chance to know his potential and so there are the instances when the employee gets an opportunity to develop himself mentally or physically for his unseen future. Development is all about building the personality and attitude of the employee for facing future challenges. So they both are vital for an employee, whether new or existing.

JOB DESIGN METHODS

Job rotation, Enlargement and Enrichment

Job design logically follows job analysis. Job analysis provides job related data as well as the skill and knowledge expected of the incumbent to discharge the job. Job design involves organizing tasks, duties and responsibilities into a unit of work to achieve certain objectives.

Job design is the process of deciding on the contents of a job in terms of its duties and responsibilities, on the methods to be used in carrying out the job in terms of techniques, systems and procedures, and on the relationships that should exist between the job holders and his supervisors, subordinates and colleagues.

The main objectives of job design are to integrate the needs of the individuals and the requirements of the organisation. Needs of the employees include job satisfaction in terms of interest, challenge and achievement? Organisational requirements are high productivity, technical efficiency and quality of work.

Job Rotation:

It is one of the methods of job design which is an answer to the problem of boredom. Job rotation implies the shifting of an employee from one job to another without any change in the job. With job rotation, a given employee performs different jobs but, more or less, jobs of the same nature.

The advantages of job rotation are—it relieves the employee from the boredom and monotony of doing a single task. The organisation also stands to benefit as the worker become competent in several jobs rather than only one. Periodic job changing can also improve inter-department cooperation.

The limitations are—the basic nature of the job remains unchanged. Also frequent shifting of employees may cause interruption in the work routine of the organisation.

Job Enlargement:

It is the process of increasing the scope of a job by adding more tasks to it. The related tasks are combined. Job enlargement involves expanding the number of tasks or duties assigned to a given job. Job enlargement therefore, naturally is opposite to work simplification. Adding more tasks/ duties to a job does not mean that new skill and abilities are needed to perform it. There is only a horizontal expansion.

Job enlargement reduces monotony and boredom. It helps to increase interest in work and efficiency. But there is no time increase of the job. Enlarged jobs require longer training period as there are more task to be learned.

Job Enrichment:

It involves designing a job in such a way that it provides the workers greater autonomy for planning and controlling one's own performance. It seeks to improve tasks, efficiency and human satisfaction by building into people's jobs, greater scope for personal achievement and recognition, more challenging and responsible work and more opportunity for individual advancement.

The advantages here are that, Job enrichment benefits employees and organisation in terms of increased motivation, performance, job satisfaction, job involvement and reduced absentees.

Further an enriched job shall meet certain psychological needs of job holders (achievement needs) etc. Job enrichment is motivating and satisfying as it adds status to one's job. Empowerment, a by-product of job enrichment, gives the employees a sense of ownership and control over their job.

The limitations are, if the employee is lazy or does not give due attention to the job, job enrichment will not have the desired outcomes. The cost of design and implementation increases. Further job enrichment by itself does not motivate. This must be preceded by the provision of other variables which contribute to the quality of work life.

MANAGEMENT

Management is the process of reaching organizational goals by working with and through people and other organizational resources.

Management has the following 3 characteristics:

4. It is a process or series of continuing and related activities.
5. It involves and concentrates on reaching organizational goals.
6. It reaches these goals by working with and through people and other organizational resources.

MANAGEMENT FUNCTIONS:

The 5 basic management functions that make up the management process are described in the following sections:

6. PLANNING
7. ORGANIZING
8. LEADING
9. CONTROLLING
10. COORDINATING

PLANNING:

Planning involves choosing tasks that must be performed to attain organizational goals, outlining how the tasks must be performed, and indicating when they should be performed.

Planning activity focuses on attaining goals. Managers outline exactly what organizations should do to be successful. Planning is concerned with the success of the organization in the short term as well as in the long term.

ORGANIZING:

Organizing can be thought of as assigning the tasks developed in the planning stages, to various individuals or groups within the organization. Organizing is to create a mechanism to put plans into action.

People within the organization are given work assignments that contribute to the company's goals. Tasks are organized so that the output of each individual contributes to the success of departments, which, in turn, contributes to the success of divisions, which ultimately contributes to the success of the organization.

LEADING:

Leading is also referred to as motivating, influencing or directing. leading can be defined as guiding the activities of organization members in the direction that helps the organization move towards the fulfilment of the goals.

The purpose of influencing is to increase productivity. Human-oriented work situations usually generate higher levels of production over the long term than do task oriented work situations because people find the latter type distasteful.

CONTROLLING:

Controlling is the following roles played by the manager:

4. Gather information that measures performance
5. Compare present performance to pre established performance norms.
6. Determine the next action plan and modifications for meeting the desired performance parameters.

Controlling is an ongoing process.

COORDINATING:

The coordinating function of leadership controls all the organizing, planning and staffing activities of the company and ensures all activities function together for the good of the organization. Coordinating typically takes place in meetings and other planning sessions with the department heads of the company to ensure all departments are on the same page in terms of objectives and goals. Coordinating involves communication, supervision and direction by management.

NEGOTIATION

Managers also play the role of entering into discussions on behalf of the organisation. Management represent the organisations' interests and act as agents for the organisation.

MANAGEMENT THEORIES

Max Weber bureaucratic management theory

The Max Weber theory of management, sometimes called bureaucratic management theory, is built on principles outlined by Frederick Taylor in his scientific management theory. Like Taylor, Weber advocated a system based on standardized procedures and a clear chain of command. Weber stressed efficiency, as did Taylor, but also warned of the danger of emphasizing technology at the expense of emotion.

One primary difference between Max Weber and management, and other theories of management, is that while Weber outlined the principles of an ideal bureaucracy, he also pointed out the dangers a true bureaucracy could face.

Key elements of the Max Weber management theory include:

- Clearly defined job roles
- A hierarchy of authority
- Standardized procedures
- Meticulous record-keeping
- Hiring employees only if they meet the specific qualifications for a job

Advantages

- Appointment, promotion and authority were dependent on technical competence and reinforced by written rules and procedures of promoting those most able to manage rather than those favoured to manage.

- The adoption of bureaucratic type of management systems allow organisations to grow into large complex organised systems that are focused towards formalised explicit goals.

- Promotes consistency thus making organisation activities more predictable. Ensures continuity as business activities are handled in a predetermined way. This also goes a long way in avoiding and detecting fraud and errors.

Disadvantages
Subsequent analysis of the theory have identified many disadvantages:

- Tendency for organisations to become procedure dominated rather than goal dominated.

- Tendency for heavily formalised organisational roles to suppress initiative and flexibility of the job holders.

- Rigid behaviour by senior managers can lead to standardised services that do not meet the needs of the client.

- Rigid procedures and rules are demotivating for the subordinates that work in the organizations.

- Slow decision making due to bottle necks inherent to the system

Other management theories already covered

- Scientific management – Taylor
- Hierarchy of needs – Maslow
- Two factor theory – Herzberg
- Theory X and Y - McGregor
- Human relations model – Mayo
- Principles of management – Fayol

Motivation and leadership

Motivation

Motivation is those factors that affect human behaviour. Humans do not just take action but they take action for a particular reason which is therefore termed motivation. Managers have to understand the needs of the subordinates as they greatly influence their behaviour at the work place. It is assumed that employees work for the purpose of satisfying a number of needs which are discussed below

Maslow's hierarchy of needs

- Motivation is driven by unsatisfied needs therefore managers must understand the needs of the individual employee
- Abraham Maslow a psychologist in 1943 brought forward the following hierarchy of needs which humans seek to satisfy
- The needs are in ascending order i.e. humans seek to satisfy the needs on the bottom of the pyramid first

- Maslow argued that human actions are directed towards goal attainment (satisfying specific needs)
- Maslow's hierarchy of needs states that we must satisfy each need in turn starting with the physiological needs, only when the lower order need has been satisfied

can a person seek to satisfy a higher need.

6. Physiological/ biological needs These needs are necessary to sustain life e.g water, shelter and food. If such needs are not satisfied then one's motivation will arise from the quest to satisfy these needs. The theory suggests that the absence of higher needs is not felt when such needs are not satisfied. Such needs can be provided at the workplace situation by financial rewards which enable the person to satisfy these needs.
7. Safety/ security needs Once physiological needs are met, ones effort shifts to security needs. The person seeks to be free from physical and emotional harm. These needs can be satisfied by offering job security, medical insurance, working in a safe environment (protective clothing) and savings.
8. Social needs

When physiological and safety needs are satisfied social needs become important. Social needs are the first higher order needs and they relate to the interaction with other people e.g. superiors, colleagues and other stakeholders. These include the need for friends, need for belonging and need to be loved. These needs can be satisfied by social gatherings, informal relationships, refreshing and other sporting activities 9. Esteem needs

After the satisfaction of the three bottom needs a person seeks to achieve internal and external esteem needs. Internal esteem needs are those related to self esteem such as self respect and achievement. External esteem needs are those that include social status, reputation and recognition. These needs can be satisfied by involving employees in decision making, decentralisation, recognising hardworking staff members e.g. employee awards.

10. Self actualisation

It is the quest of reaching one's full potential as a person. This need can never be fully satisfied because as one grows psychologically there are always new opportunities to continue to grow. According to Maslow very few individuals reach this level, however, self actualised people tend to have needs such as truth, justice, wisdom and meaning. Such needs are satisfied by people conducting researches and further studies e.g. professorship. Such needs are difficult to satisfy at the work place.

REASONS PEOPLE WORK

There are many reasons why people work. One person may work for one reason and another person for another. If one were to ask someone why he/she works, his/her first answer might be, "to earn money." While this may be true for many people, there are some rich people who also work very hard and they surely do not need the money. They must work for other reasons. Although people work for many reasons some of the more important reasons are as follows:

Earning Money

People need to work to make a living. Therefore, it is necessary to earn money to buy the things that are needed and wanted. Some of the things that are bought are necessary for life and others add happiness and enjoyment to life. It should be remembered that the amount of money a person earns from an employer will depend on what the worker has to offer the employer.

Security

It is only natural that people are somewhat worried about the future. Most people are concerned about how long they will be able to keep their jobs or what might happen to them and their families if they were unable to work. This means people work to generate savings that could be used when the worker is out for any reason. The reason people buy insurance of all kinds is that they are concerned about the future. Work that is done today may provide money that can be used in the future. Therefore, some people work to provide this security.

Gaining Experience

Sometimes people work at a job so that they can gain some experience and get a better job. A person might start out as a dishwasher in a restaurant. A good worker will gain experience on the job and might move up to a cook's helper in the kitchen. Work is necessary so he/she can gain experience on the job. This experience may help a person become a more valuable employee and provide a chance for advancement on the job.

Feeling Important

All people like to feel they are needed. This gives them a purpose to life. Work by one person provides a service or product for another person. For instance, a teacher feels to be making an important role in educating members of the society. If people take pride in their work, they may find it a very enjoyable part of their lives.

Achievement

Most people want to achieve something during their lifetime. Working provides a way for them to get the things they want out of life. It is important for workers to set some goals for their future work.

Workers should know what they want to achieve and then set out to achieve it e.g. an accounting student may have a dream to become a chartered accountant.

Recognition

All people like to receive credit for what they do. Receiving credit and recognition for doing good work makes anyone feel good. It also makes people try to work harder and do better. Next to the need to earn a living, perhaps the reason most people work is to receive some form of recognition.

Social Values

The work that a person does is valuable to society. The work a doctor does benefit not only the doctor, but also the people who are treated. Some people even work without pay for the benefit of others e.g. volunteers with humanitarian organisations like Red Cross and Red Crescent.

Keeping Busy

Without work, some people would find it difficult to find enough to do. Work provides an outlet for their energy. There are times when older workers would prefer not to retire. Their jobs give them a chance to keep busy.

It is easy to see that finding a job and doing that job to the best on one's ability is an important part of life. People work for many different reasons, from wanting money to helping others. It is very important for a manager to understand the probable reasons why each member of the organisation is working, these reasons can be used to ensure that the worker is motivated.

MOTIVATION THEORIES

A number of theories have been put forward by psychologists to explain the behaviour of employees at the workplace. These are discussed below.

Maslow's hierarchy of needs

Maslow identified 5 levels of needs which we have discussed previously. The theory can be practically applied in worker motivation as follows.

Application of the theory

Physiological needs

These needs can be satisfied by employment income, therefore managers must offer sufficient remuneration to pay for food, accommodation and supply their families with the necessities of life.

- According to Maslow, employees cannot be motivated if the income they get from employment does not give them access to the necessities of life.

Safety needs

- Workers need to feel safe at the work place, this can be done by providing protective clothing, this protects the employee from work related injuries especially for blue coaler jobs.
- Contracts of employment provides job security to the employee as he/she is guaranteed employment under stipulated conditions for a period of time e.g. without a contract the employee has to live with the risk of losing the job without notice or the variation of employment terms by the employer.
- Employer can make insurance contributions on behalf of the employees e.g. pension and medical aid. The employee is guaranteed income in the event of a job loss or retirement. This makes the employee feel secure
- Management can use coercive power sparingly as it adversely impacts on the safety of the employees, frequent threats to employees can demotivate the workers.

Social needs

- Working in teams can help to motivate the employees, this is in line with Fayol's fourteen principles
- Establishing good communication channels go a long way in motivating the workers
- Forming of sporting clubs e.g. soccer clubs. This enables employees to satisfy their social needs e.g. Chicken inn FC.
- Non discriminatory practices by management go a long way in motivating the employees. In organisations where discrimination is rife those individuals being discriminated may lack confidence and become less productive

Esteem needs

- Managers must show appreciation for outstanding performance, this can be done by having annual awards to hardworking employees e.g. employee of the year awards
- Managers can delegate some tasks to their subordinates
- The nature of the job design must be challenging, management can set challenging objectives
- Encourage employee participation through democratic decision making processes.
- Offer training to employees who require it.

Self actualisation

- The employee can be given challenging tasks and the autonomy to solve those problems
- Encourage creativity of the worker in those situations
- Self actualised workers inspire others e.g. the company's managing director can inspire other employees

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Herzberg's two factor theory

Herzberg identified two set of factors relevant in the motivation of employees. He classified these factors into hygienic factors and motivating factors.

Hygienic factors

- These factors demotivate the employee if they are not present but their presence does not motivate the worker to work harder.
- Examples of these factors are salary, oversupervision by managers and working conditions
- Managers have to ensure that the hygienic factors have been provided so as to get rid of dissatisfaction. However, the provision of such factors do not mean that the worker is satisfied
- Herzberg argued that the absence of dissatisfaction does not mean that the workers are satisfied, this is because the

two are caused by two distinct factors. Therefore the two cannot be treated as opposites.

Hygienic factors are synonymous with the lower level needs on the Maslow's Hierarchy of needs

They can be provided in the following ways

- Pay/ salary: The pay structure should be appropriate and reasonable. It must be fair and competitive to those in the same industry in the same domain
- Company Policies and administrative policies - The company policies should not be too rigid. They should be fair and clear. It should include flexible working hours, dress code, breaks, vacation, etc.
- Fringe benefits - The employees should be offered health care plans, benefits for the family members, employee help programmes, etc.
- Physical working conditions - The working conditions should be safe, clean and hygienic. The work equipments should be updated and well-maintained.
- Interpersonal relations - The relationship of the employees with his peers, superiors and subordinates should be appropriate and acceptable. There should be no conflict or humiliation element present.
- Job Security - The organization must provide job security to the employees.

Motivational factors

According to Herzberg, the hygiene factors cannot

be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. Motivational factors include:

- Recognition - The employees should be praised and recognized for their accomplishments by the managers.
- Sense of achievement - The employees must have a sense of achievement. This depends on the job. There must be a fruit of some sort in the job.
- Growth and promotional opportunities - There must be growth and advancement opportunities in an organization to motivate the employees to perform well e.g. opportunities for promotion
- Responsibility - The employees must hold themselves responsible for the work. The managers should give them ownership of the work. They should minimize control but retain accountability.
- Meaningfulness of the work - The work itself should be meaningful, interesting and challenging for the employee to perform and to get motivated. This is done through job enrichment and job rotation.

Limitations of Two-Factor Theory

3. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
4. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.

Application of the Theory

The theory implies that the managers must stress upon guaranteeing the adequacy of the hygiene factors to avoid employee dissatisfaction. Also, the managers must make sure that the work is stimulating and rewarding so that the employees are motivated to work and perform harder and better. This theory emphasize upon job-enrichment so as to motivate the employees. The job must utilize the employee's skills and competencies to the maximum. Focusing on the motivational factors can improve work-quality.

Taylor's scientific management

Taylor put forward the idea that workers are motivated mainly by pay and did not consider non financial methods of motivation. He viewed a worker as an economic man who is motivated solely by monetary rewards. He made the following arguments:

- Workers do not naturally enjoy work and so need close supervision and control
- Therefore managers should break down production into a series of small tasks Workers should then be given appropriate training and tools so they can work as efficiently as possible on one set task.
- Workers are then paid according to the number of items they produce in a set period of time- piece-rate pay.
- As a result workers are encouraged to work hard and maximise their productivity.

Application of scientific management in motivation

Taylor's approach has close links with the concept of an autocratic management style(managers take all the decisions and simply give orders to those below them) and McGregor's Theory X approach to workers (workers are viewed as lazy and avoid responsibility). This has the following consequences

- Performing the same task repetitively will end up becoming monotonous and boring, this can demotivate the worker and adversely impact on productivity
- It is improper to assume that workers are motivated solely by financial rewards as it can be observed in reality that people work for other reasons which are not financial.
- The piece rate system is difficult to apply in some businesses especially in the service sector
- Strict supervision of employees can adversely impact on employee confidence and morale
- Taylor identified the importance of why workers must receive adequate training. This is very important in improving productivity and worker motivation.

Mayo's Human relations theory

Elton Mayo believed that workers are not just concerned with money but could be better motivated by having their social needs met whilst at work (something that Taylor ignored). He introduced the Human Relation School of thought, which focused on managers taking more of an interest in the workers, treating them as people who have worthwhile opinions and realising that workers enjoy interacting together. Mayo made the concluded that workers are best motivated by:

- **Better communication** between managers and workers
- **Greater manager involvement** in employees working lives
- **Working in groups or teams.**

In practice therefore businesses should re-organise production to encourage greater use of team working and introduce personnel departments to encourage greater manager involvement in looking after employees' interests. His theory most closely fits in with a democratic style of management.

MOTIVATION IN PRACTICE

When examining methods of motivation that can be applied in the workplace, we sub-divide them into financial and non-financial methods. Financial methods directly involve monetary rewards e.g. bonuses, pay rises, pensions etc. Non-financial methods, though perhaps indirectly bringing monetary rewards, are targeted at providing psychological benefits for workers. It must be remembered that both financial and non-financial methods have costs to the employer, either through direct costs such as extra pay, or indirectly through the provision of training or management time spent. Financial methods of motivation

Herzberg emphasised the importance of hygienic factors, he once said 'if you pay peanuts, you get monkeys'. This shows the importance of financial methods of motivation discussed below.

Piece rate pay: The most basic method of payment is a piece rate. When a piece rate is paid workers are paid for each item they produce or for each task completed. This does have advantages in that workers will work as fast as they can to maximise their income, and payment is only made when work is completed. But there are disadvantages for both employer and employee. For the employer there must be a great deal of supervision and checking of quality as workers are motivated to achieve speed of output not quality of output. From the employees point of view there is no guarantee of income and incomes are often very low, no matter how fast they work.

Fringe Benefits: Other forms of financial motivation include company cars, pension schemes, sickness benefits, subsidised meals and travel, and staff discounts. These are often grouped together under the heading fringe benefits. Some of these fringe benefits can be regarded as essential in encouraging the right applicants for certain types of vacancies. For example a company car is a necessity in financial service firms for anyone involved in sales, and senior management in many companies would expect both an upmarket car and private health care.

Bonus schemes: There are a wide variety of bonus schemes available, each designed to be suitable for different employees doing different jobs. These schemes include:

- **Sales bonus**. This is normally paid if a sales target has been reached. For sales people this may make up a significant part of their salary.
- **Performance bonus**. This can be paid to an individual or on a group or factory wide basis, and is often paid for reaching targets of output and quality. This method of payment is an important part of Human Resource Management.
- **Christmas bonus.** Often called a 13th month's salary, paid for loyalty to the business.
- **Profit share**. Some businesses will pay a percentage of profits to employees. The amount that they receive will normally depend on salary and length of service, so rewarding those that had been with the company longest, more.

Profit related pay. Profit related pay links part of an employees' income to the profits of a company. Those who receive profit related pay will earn less if the company profits decline and more when the entity is profitable. This method is sustainable to the firm as employees are paid in accordance to profitability. Employees are motivated to work hard to improve the entity's profits thus achieving goal congruency.

Commission: Employers pay employees a sales commission to incentivize the employees to produce more sales and to reward and recognize people who perform most productively. The sales commission has proven to be an effective way to compensate sales people and to promote more sales of the product or the service. The employee is paid a specific portion of his or her sales e.g. 3% of sales revenue generated by the employee.

Employee stock option: It is a stock option granted to specified employees of a company. It offers the options holder the right to buy a certain amount of company shares at a predetermined price for a specific period of time. This motivates the employees to work for the benefit of the organisation since they are to become owners of the entity.

Non-financial methods of motivation

The use of non-financial motivation methods is an attempt by employers, to apply ideas behind the theories of Mayo, Maslow and Hertzberg. Examination of these theories has shown us that motivation to achieve quality of output is best achieved through satisfaction of higher needs (Maslow), awareness of the role of groups in the workplace (Mayo), and the need to provide Motivators (Herzberg). The non-financial methods of motivation outlined below can be linked to one of more of these theories.

Job Enrichment: This means giving workers more control over the tasks that they complete. Allowing workers to complete tasks that have a meaning, and are complete in themselves. For example a worker who has a job fitting the tube to a TV, may have his job enriched by testing that the tube works, and being able to make adjustments so that the required level of quality is achieved. The ability to do this range of tasks means that the worker becomes more committed to achieving quality. The cost associated with this method, are of course, the time spent training the worker to complete these extra tasks. Effective job enrichment depends upon workers having interesting tasks to complete. Job design is a key part of Herzberg's ideas.

Job Enlargement: Job enlargement means increasing the number of tasks completed by a worker. So a secretary previously employed to answer calls might now have duties, which include, filling, letter writing etc. This adds interest to the job, and involves the employee in a more complete role within the business.

Communication: Communication is a key part of motivation, and effective use of methods of communication is a complex management issue.

Empowerment: This means giving workers the power to control their own jobs, make decisions, and implement their own ideas. It is often used effectively in decentralised organisations and democratic leadership styles.

Quality Circles: These are groups of workers that meet on a regular basis to discuss problems in the manufacturing or service provision process and offer solutions. They may involve groups of workers from the same department, or come from a variety of disciplines. They may include designers, buyers, and production workers.

Training: The provision of a formal training scheme is important. As Herzberg stated, without training, workers will not be able to fulfil their potential. Training can be on-the-job, learning by doing, or off the job, such as studying at a college. Taylor also emphasised the importance of training in an effort to improve productivity.

Growth opportunities: *Employees will always perform at their best when the environment is conducive to growth.* The potential for growth is a huge motivational difference maker. Employees can be motivated by opportunities for promotions, professional advancement by getting more experience and personal growth.

Status: it is a socially defined position or rank to groups or group members by others. It is evident that the society has different classes. Status is an important factor in understanding human behaviour because it is a significant motivator. For instance, when one has been promoted his/her status would improve thus boosting morale and productivity.

Positive effects of motivation

The following features show that the staff members are motivated

- Increased productivity
- Reduced accidents
- Reduced wastage of materials
- Minimum errors
- Reduced conflicts
- Workers seek responsibility
- Resistance to change

On the other hand, the following signs show that the workforce is demotivated

- Reduced productivity
- Accidents at workplace
- Increased wastage of materials
- Poor quality work
- Dysfunctional conflicts
- Workers avoid responsibility
- High rates of absenteeism
- High labour turnover i.e. increased number of employees leaving their jobs
- Actual or threats for industrial action
- Less or no punctuality
- Work delays i.e. missing deadlines or targets

LEADERSHIP

- It is the art of influencing people to perform task related activities ***willingly***.
- Willingness is a key aspect in defining leadership, because leaders do rely mainly on charismatic power to motivate their followers to work towards attaining a specific goal.
- A good manager must possess good leadership qualities because a good leader is a great motivator.
- Leadership involves:
  - establishing a clear vision
  - sharing that vision with others so that they will follow willingly
  - providing the information, kn owledge and methods to realize that vision
  - coordinating and balancing the conflicting interests of members and stakeholders

Qualities of a good leader

- Respect for every member of the organisation e.g. employees at all levels.
- Honest and trustworthy
- Self motivated i.e. seeks to satisfy higher level needs on Maslow's hierarchy. Motivated by non financial incentives
- Commitment to the growth and development of those he/she leads
- In possession good communication skills

- Ability to motivate his/her followers · An autocratic style of leadership can
- Integrity be effective in work environments · Vision/strategy where decisions need to be made · Persuasion quickly. The sole responsibility rests · Adaptability with the leader, and he/she makes the · Teamwork decision without the need to consult
- Coaching and Development others. This saves precious time which
- Decision-making, ability to make happens to be a non renewable quality decisions resource
- Planning skills · The leader keeps a close watch on the

activities of the workers. This can

Leadership styles

result in increased productivity and speed, as workers who fall behind are

'Leadership style' is the general attitude and quickly identified and corrective behaviour of a leader, particularly in relation measures are taken. Quality may to his or her colleagues and team members.

improve, as the employees' work is

monitored constantly. Time wasting **There are a number of styles of** and the need to waste resources are **leadership:** also reduced.

· This style is very effective when

4. **Autocratic** dealing with inexperienced or

demotivated staff. It is greatly aligned

This is often referred to as an authoritarian to McGregor Theory X leadership style, and it basically means that · The style strongly motivates the the people at the top of an organisation make leaders who dictate the pace within the all the decisions and delegate very little organisation. It gives status to the responsibility down to their subordinates. It leader and enables the leader to satisfy can cause much resentment and frustration higher order needs on Maslows' amongst the workforce and it is not very hierarchy of needs

common in today's business world. Its features · Effective chain of command is crucial are summarised below for the success of any organisation as highlighted by Fayol. This style is mostly effective in organisation where

- Autocratic leaders hold onto as much chain of command is crucial such as power and decision-making as military, air force like organization. possible
- Communication is top-down & one- Demerits way i.e. no opportunity for feedback to the leader · This style is widely criticised for its
- Formal systems of command & control negative motivational consequences as are strictly adhered to it does not involve subordinates in the
- Minimal consultation as the manager decision making process thus failing to single handedly makes the decisions recognise their importance in the
- Use of rewards & penalties to shape decision making process human behaviour (motivation tool) · Autocratic leaders take full Very little delegation responsibility for the execution of the
- Most likely to be used when tasks at hand. This puts pressure on subordinates are unskilled, not trusted the manager as he/she is reluctant to and their ideas are not valued delegate. Such a scenario may have adverse consequences to the

Merits

organisation and the manager in his personal capacity e.g. work related stress.

- May be the major reason for resistance a sustainable balance between time to change in cases where subordinates spent and the benefits.

  are unhappy with the decisions made Likely to be most effective when used
- One way communication is with skilled, free-thinking and counterproductive as it cannot be experienced subordinates.

  ascertained in time if the intentions of It can only be effective as a the leader are properly understood. motivational tool only in cases where the lower level needs according to

5. **Democratic.** Maslow or hygienic factors according

to Herzberg are satisfied

This involves managers and leaders taking into account the views of the workforce before Merits making decisions and implementing them.

This can lead to increased levels of morale and · Exchange of ideas among subordinates motivation amongst the workforce, but it can and leader improves job satisfaction also result in far more time being taken to and morale of the subordinates. The achieve the results since many people are employees will develop a positive involved in discussing the decision. This type attitude towards their jobs as they feel of leadership has the following characteristics: their contributions are needed for the success of the organisation

- Focus of power is more with the group

  as a whole than individual members · Human values get their due recognition which motivates

  the Leadership functions are shared within the group as opposed to the subordinates and reduces resistance to leader executing them in person. This change as the employees would have implies the presence of delegation. been involved in the process of change. Workers also develop a
- Employees have greater involvement greater sense of self - esteem, due to in decision-making, all employees importance given to their ideas and affected by a decision are consulted their contributions. before the it is made
- Two way communication is an

  · Increased productivity as motivation

  important feature with democratic minimises counterproductive leadership, the manager gets feedback

  behaviours such as labour

  from the subordinates absenteeism, material wastage, work
- Emphasis on delegation and accidents, missing of targets and consultation although the leader still reduces the labour turnover rates. makes the final decision, this positively affects the quality of the

  decisions made as he/she is in a better · It is an effective in finding solutions position to make

  informed decisions for complex problems which are non

  routine by their nature.

 Perhaps the most popular leadership style because of the positive emotional connotations of acting democratically, · The quality of decision is improved it satisfies higher level needs on through consultation as managers can Maslow's hierarchy of needs. It can be make informed decisions. viewed as a non financial motivational Consultation enables managers to tool assess the probable impact of a

decision to the various stakeholders

 A potential trade-off between speed of before it is made. decision-making and better motivation and morale. Consultations are time consuming even though they motivate · The leadership style induces there is need for the manager to strike confidence, cooperation, and loyalty

among workers. This minimises dysfunctional conflicts thus going a long way in ensuring unit of direction, which was highlighted in Fayols' 14 principles

Demerits

- This approach is very time consuming and too many view-points and ideas may take the- solid decision more difficult and may be a source of frustration to impatient management.
- The democratic leadership requires some favourable conditions in that the labour must be literate, informed and organised. This is not always possible.
- This approach assumes that all workers are genuinely interested in organisation and that their individuals are goals successfully fused with the organisational goals. This assumption may not always be valid.
- There must be a total trust on the part of management as well as employees. Some employees may consider this approach simply an attempt to manipulate them. Accordingly the employees must be fully receptive to this approach to make it meaningful.
- Some group members may feel alienated, if their ideas are not accepted for action. This may create a feeling of frustration and ill-will.
- Some managers maybe uncomfortable with this approach because they may fear erosion of their power base and their control over labour.
- This approach relies heavily on incentives and motivation of recognition, appreciation, status and prestige. The labour may be more interested in financial incentives instead of prestige.
- When employees are encouraged employees to give their opinions on company issues, they provide a variety of solutions to choose from. Participative leadership empowers employees to use their creativity to develop more productive work processes and make the company more efficient (innovation).

6. **Laissez-faire.**

This is where employees are set objectives, and then they have to decide how best to achieve them using the available resources. This method of leadership can result in high levels of enthusiasm for the task in-hand, but it can at times rely too much on the skills of the workforce.

- The term Laissez-faire means to "leave alone", implying employees are given absolute autonomy with minimal interference from management
- Leader has little input into day-to-day decision-making
- Managers / employees have freedom to do what they think is best under the circumstances.
- Often criticised for resulting in poor role definition for managers as the subordinates are fully empowered to make decisions which is a traditional role of managers.
- Effective when staff are ready and willing to take on responsibility, they are motivated, and can be trusted to do their jobs

Merits

Laissez-faire leadership styles tend to work best near the top of organizational hierarchies, where executives build teams of experts such as directors and give them wide latitude to run their departments. Teams focused on research and development, conceptual or creative projects require autonomy. A positive laissezfaire leadership style has the following merits

- Allows experts to function productively and challenges them to take personal responsibility for their achievements and failures
- Motivates people to perform optimally and gives them latitude to make correct decisions that might not be supported in a more structured environment.
- Reinforces successful performance and leads to a higher retention of experts who

thrive in creative environments that support autonomous decision-making
- Reduces supervision costs as minimal supervision is applied
- Reduced workload for the leader

Demerits

When laissez-faire leadership is used inappropriately in organizations, projects or settings, it can create more problems than it resolves. If groups or team members lack sufficient skills, experience or motivation to complete projects, the organization suffers in the following ways:

- The style may make it difficult for senior management to coordinate the various efforts
- Results in a lack of accountability for organizations, groups or teams and failure to achieve goals
- Leads to ineffective time management by teams, resulting in ambiguous objectives and missed deadlines

Summary

As a generalisation, in most business sectors there has been a gradual shift away from autocratic leadership. Possible reasons for this include:

- Changes in society's values
- Better educated workforce
- Focus on need for soft HR skills
- Changing workplace organisation
- Greater workplace legislation
- Pressure for greater employee involvement

A manager has to be flexible in his/her approach to leadership i.e. must be able to chose the most appropriate style under the circumstances e.g. use autocratic leadership in times of emergency and use democratic style where changes are imminent.

McGregor Theory X and Y

McGregor developed two theories of human behaviour at work: Theory and X and Theory Y. He did not imply that workers would be one type or the other. Rather, he saw the two theories as two extremes - with a whole spectrum of possible behaviours in between. These theories are very useful in determining the leadership style to be applied y the manager.

Theory X workers could be described as follows:

- Individuals dislike work and avoid it where possible. Therefore, people must be controlled and threatened for them to work hard enough
- Individuals, who lack ambition, dislike responsibility and prefer to be led.
- Individuals desire security above everything

The management implications for Theory X workers were that, to achieve organisational objectives, a business would need to impose a management system of coercion, control and punishment. This is in line with the ***autocratic*** leadership style.

Theory Y workers were characterised by McGregor as:

- Consider effort at work as just like rest or play
- Ordinary people who do not dislike work. Depending on the working conditions, work could be considered a source of satisfaction or punishment
- Individuals seek responsibility if they are motivated

The management implications for Theory X workers are that, to achieve organisational objectives, rewards of varying kinds are likely to be the most popular motivator. The challenge for management with Theory Y workers is to create a working environment where workers can show and develop their creativity. This environment can be created by using a ***democratic*** leadership style which enables subordinates to satisfy higher level needs on Maslow's' hierarchy of needs.

Difference between leadership and management

Managing and leading are two different ways of organizing people. **Leadership** is setting a new direction or vision for a group that they follow i.e., a leader is the spearhead for that new direction. On the other hand, **management** controls or directs people/resources in a group according to principles or values that have already been established. The manager uses a formal, rational method whilst the leader uses passion and stirs emotions through charisma The following differences can be noted which distinguish leadership from management

- Leaders rely on influence through charismatic power while managers have authority. Therefore, leaders have followers who follow willingly while managers have subordinates

- Management involves controlling organisational activities to achieve a goal while leadership refers to the individuals' ability to influence, motivate and enable others to contribute towards the attainment of organisational goals

- Leaders are innovative by nature while managers try to maintain status quo. Managers thrive to conform to the pre set standards while leaders create change. Leaders actually challenge the status quo seeking room for improvement. In other words managers maintain while leaders develop.

- Leaders are people oriented implying that they base their conduct mainly on the motivation of their followers. On the other hand managers are task oriented, implying that they are mainly concerned by the accomplishment of the task at hand regardless of the methodology

- Leaders have followers (voluntary) while managers have subordinates (chain of command). Leaders instil trust between them and their followers

- Leaders are concerned about leading people i.e. they do not distinguish themselves much from their followers. This motivates their followers. Managers are primarily concerned by managing work.

- Leaders have a high appetite for risk, therefore they create change. On the other hand managers react to change because they are generally risk averse.

- The manager focuses on systems and structure; the leader focuses on people.

- The manager does things right; the leader does the right thing

To sum up, leadership and management must go hand in hand. They are not the same thing. But they are necessarily linked, and complementary. Any effort to separate the two is likely to cause more problems than it solves. In light of these differences, leadership is more complex then management. It is important for a manager to posses good leadership qualities as motivation appears to be the key factor that distinguishes leaders from managers. It is therefore important to consider the key leadership positions within an organisation.

Leadership roles in business

- Various people play leadership roles in the organisation. Some of the roles are formal e.g. managers, directors and supervisors
- There are some individuals who lead informal organisations these are informal leaders.
- Informal leadership is the ability of a person to influence the behaviour of others by other means other than formal authority conferred by the organisation through its rules and procedures.
- Informal leaders influence the organisational activities because the informal organisations are important in the activities of the organisation.
- Informal leaders are key in the execution of organisational strategy as they play a key role in influencing their colleagues in matters to do with organisational activities
- Informal leaders do not posses any formal authority and they emerge due to their personal traits.
- These informal leaders are more likely to be nominated to represent fellow workers on different platforms

Business communication

Communication is the act or process of using words, sounds, signs, or behaviours to express or exchange information or to express your ideas, thoughts, feelings, etc., to someone else

There are two parties involved in the communication process

- Sender: the one who initiates the communication process by conveying a message to the other person
- Receiver: the one who receives the message and must take action on the message

Purpose of communication

Management can be described as the art of getting the things done through others. The people working in the organisation should therefore be informed how to do the work assigned to them in the best possible manner. This makes communication essential for the success of any organisation. The purpose of the communication can be summed up into the following:

1. **Flow of Information:**
The relevant information must flow continuously from top to bottom and vice versa. The staff at all levels must be kept informed about the organisational objectives and other developments taking place in the organisation.

2. **Coordination:**
It is through communication the efforts of all the staff working in the organisation can be coordinated for the accomplishment of the organisational goals. The coordination of all personnel's and their efforts is the essence of management which can be attained through effective communication.

3. **Learning Management Skills:** The communication facilitates flow of information, ideas, beliefs, perception, advice, opinion, orders and instructions etc. both ways which enable the managers and other supervisory staff to learn managerial skills through experience of others.

4. **Preparing People to Accept Change:** The proper and effective communication is an important tool in the hands of management of any organisation to bring about overall change in the organisational policies, procedures and work style and make the staff to accept and respond positively.

5. **Developing Good Human Relations:** Managers and workers and other staff exchange their ideas, thoughts and perceptions with each other through communication (meetings). This helps them to understand each other better. They realize the difficulties faced by their colleagues at the workplace. This leads to promotion of good human relations in the organisation as recommended by Mayo's Human relations model.

6. **Ideas of Subordinates Encouraged:** The communication facilitates inviting and encouraging the ideas from subordinates on certain occasions on any task (democratic leadership). This will develop creative thinking and innovation. Honouring subordinates' ideas will further motivate them for hard work and a sense of belonging to the organisation will be developed.

THE COMMUNICATION PROCESS

The purpose of communicating is to ensure the desired response from the receiver of the message. For this to be achieved a number of factors have to be considered. If the right message does not get to the right person, in the right format, then this could affect the overall efficiency of the business. This could actually harm the business.

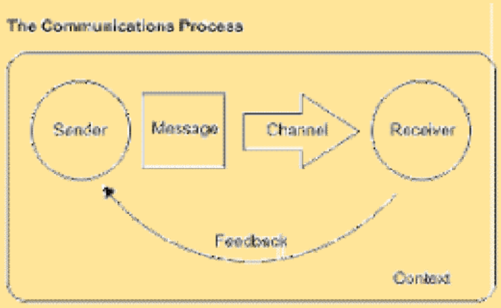
There are a number of parts to any communication. For instance, sending a message involves:

- the sender - the person writing the text
- the receiver - the person to whom the message is addressed
- the content of the message - for example, news, information, an invitation

- the format of the message - in this example text, image, diagram, graph, e.t.c.
- the communication channel through which the message is sent - in this case a mobile phone network
- the medium - how the message will be sent, in this case it is in writing.

It is vital that each part of the message is correctly chosen and in place. If not, the message may not be received or understood.

The communication process can be illustrated by the following diagram.



The diagram depicts the sender originating a message destined to the receiver. The receiver gives feedback to acknowledge the receipt of the message. Feedback is critical to the communication process as it ensures that the message has reached the intended destination and is understood by the receiver.

COMMUNICATION METHODS

Types of Communication

Communication involves the imparting or interchanging thoughts, opinions, or information among people by speech, writing, or signs. People communicate in different ways discussed below.

VERBAL

Verbal communication entails the use of words in delivering the intended message. The two major forms of verbal communication include written and oral communication.

Written communication

It includes traditional pen and paper letters and documents, typed electronic documents, e-mails, text chats, SMS and anything else conveyed through written symbols such as language. This type of communication is indispensable for formal business communications and issuing legal instructions. Communication forms that predominantly use written communication include handbooks, brochures, contracts, memos, press releases, formal business proposals, and the like. The effectiveness of written communication depends on the writing style, grammar, vocabulary, and clarity

Advantages of written communication

- One of the biggest advantages of written communication is the fact that it allows for permanent records, which is something other means of communication such as oral communication do not have.
- Written communication strengthens and clarifies a verbal message.
- Because it allows for permanent records, it is good for making references.
- Written communication can be very useful as a defence during legal issues since there is normally physical evidence in the form of a hardcopy which can be easily stored or kept hidden somewhere.
- Written communication is more reliable than oral communication. A written and signed document carries more weight and validity than spoken words.
- Written communication is more precise than other means of communication.
- Written communication, because of its form can be stored for analysis to be made in order for one to get a better understanding of the message it contains.
- It can be easily disseminated to recipients that are in different locations.

Disadvantages of written communication

- Unlike other forms of communication, written communication can take a considerable amount of time to produce.
- Written communication is sometimes limited to people who have sight. Blind people or the visually impaired, for instance cannot receive certain types of written

communication. For example, a blind man cannot receive information from a poster or notice.

- Written communications are also not flexible. It is a very rigid means of communication.
- With written communication feedback is not immediate. Feedback is a very important thing in every organization, which is why a delay in receiving feedback can result in certain unfavourable issues such as slowing down the decision making process.
- Poor writing skills can hamper the effectiveness of the written communication. If the writer cannot write effectively then there is a high likelihood that a lot of people are going to misunderstand the message being sent. This can be a very negative thing for any organization and can come with a great deal of severe ramifications.
- Written communication is time consuming and can be very expensive to produce and to disseminate.
- Some illiterates or people who cannot read and write very well will have it pretty difficult getting and understanding the information or message contained within a written means of communication.

Oral Communication

The other form of verbal communication is the spoken word, either face-to-face or through phone, video conferencing or any other medium. Various forms of informal communications such as the grapevine and formal communications such as lectures, conferences are forms of oral communication. Oral communication finds use in discussions and causal and informal conversations. The effectiveness of an oral conversation depends on the clarity of speech, voice modulation, pitch, volume, speed, and even non-verbal communications such as body language and visual cues.

Verbal communication makes the process of conveying thoughts easier and faster, and it remains the most successful form of communication.

Advantages of Oral Communication

There is high level of understanding and transparency in oral communication as it is interpersonal.

- Oral communication is cheap because its natural
- There is no element of rigidity in oral communication. There is flexibility for allowing changes in the decisions previously taken.
- The feedback is spontaneous in case of oral communication. Thus, decisions can be made quickly without any delay.
- Oral communication is not only time saving, but it also saves upon money and efforts.
- Oral communication is best in case of problem resolution. The conflicts, disputes and many issues/differences can be put to an end by talking them over.
- Oral communication is an essential for teamwork and group energy.
- Oral communication motivates the employees as it promotes satisfies the social needs thus encouraging morale among organizational employees.
- Oral communication is compatible with most communication methods e.g. visual communication
- Oral communication can be best used to transfer private and confidential information/matter.

Disadvantages/Limitations of Oral Communication

- Relying only on oral communication may not be sufficient as business communication is formal and very organized because records are required for audit and control purposes
- Oral communication is less authentic than written communication as they are informal and not as organized as written communication.
- Oral communication is time-saving as far as daily interactions are concerned, but in case of meetings, long speeches consume lot of time and are unproductive at times.
- Oral communications are not easy to maintain and thus they are unsteady.
- There may be misunderstandings as the information is not complete and may lack essentials.

- It requires attentiveness and great receptivity on part of the receivers/audience.
- Oral messages do not have any legal validity unless they are taped or written and made a permanent record. This is a major drawback of oral communication.

Nonverbal Communication

Nonverbal communication entails communicating by sending and receiving wordless messages. These messages usually reinforce verbal communication, but they can also convey thoughts and feelings on their own. It includes body language such as body movements, facial expressions, touch, physical appearance, graphs and pictures

Advantages of non verbal communication

- Communication can take place even if the receiver cannot hear
- Individuals can communicate in places where talking audibly is prohibited
- It compliments verbal communication
- It is brief
- Reliable in case of non voluntary cues

Disadvantages of non verbal communication

- Its interpretation is not consistent in different cultures. Different people perceive the same gestures from different perspectives depending on cultural values
- No permanent record of the communication
- It cannot work with visually impaired audience

Visual communication

The communication which is done through sight is called ***visual communication***. Such as facial expression, gesture, eye contact, signals, map, chart, poster etc. it also includes graphic design, illustration and animation, books, print, magazines, screen-based media, interactive web design, short film, design for advertising, promotion, corporate identity and packaging design etc.

Visual presentation of information and data is having an increasing impact on our practical life. In spite of having impact on our life, visual communication is not alone sufficient for exchanging information. For example the red sign to indicate 'danger'.

Advantages of visual communication

Visual presentation is beneficial for many reasons. Some of them are as follows:

1. **Effective for illiterate receiver**: If the receivers are illiterate, the visual communication will be more effective to exchange information. They can easily understand the information that is presented visually.
2. **Helps in oral communication**: Visual techniques can be used with oral communication. Oral communication becomes more meaningful if graphs, pictures and diagrams are used with it.
3. **Easy explanation**: Everyone can explain the meaning of it very easily. Easy explanation has made the visual techniques more popular.
4. **Simple presentation**: Complex information, data and figures can be easily presented very simply on graphs, pictures and diagrams.
5. **Prevents wastage of time**: Visual techniques help to prevent the wastage of time. Written and oral communication takes much time to exchange information.
   But number of receivers can be communicated at a time through visual methods.
6. **Helps in quick decision**: Visual communication helps to take quick decision. So management prefers visual techniques to communicate with others.
7. **Popular**: Visual communication is very much popular because people do not like much speech and long explanation rather than a chart of a diagram.
8. **Others**: Artful presentation, Ads impact to the information, quicker understanding.

Disadvantages of visual communication:

There are some limitations of visual communication as follows:

1. **Costly**: The visual methods of communication are more costly than those of other methods. To draw maps, charts,

diagram is costly. That is why only large organization can use this technique.

2. **Complex presentation**: Sometimes visual presentation of information becomes complex. The receivers cannot understand the meaning of the presentation.
3. **Incomplete method**: This technique is considered as an incomplete method. Visual presentation is not sufficient to communicate effectively and clearly but also it can be successfully used with oral communication.
4. **Wastage of time**: Sometimes visual techniques take much time to communicate.
5. Making a visual presentation requires more time and effort as it involves selecting , compiling and presenting a large amount of information in a visually pleasing manner
6. Difficult to understand: Difficult to understand and requires a lot of repetitions in visual communication. Since it uses gestures, facial expressions, eye contact, touch etc. for communicating with others which may not be understandable for some people.
7. **Problem for general audience**: General people may not prefer to communicate through visual communication with others. It cannot be used everywhere because a degree of skill is required from the audience.
8. **Others**: Ambiguity, situational problem, delays in taking decision.

BARRIERS TO COMMUNICATION

Effective communication occurs whenever the intentions of the sender are understood by the receiver. Effective communication is dependent on the communication skills of both the sender and the receiver and the medium of communication used for it to be effective. A barrier to communication is anything that makes communication ineffective.

For the convenience of study the different barriers can be divided into four parts:

SEMANTIC BARRIERS

There is always a possibility of misunderstanding the feelings of the sender of the message or getting a wrong meaning of it. The words, signs, and figures used in the communication are explained by the receiver in the light of his experience which creates doubtful situations. This happens because the information is not sent in simple language.

The chief language-related barriers are as under:

(i) Badly Expressed Message: This barrier is created because of the wrong choice of words, in civil words, the wrong sequence of sentences and frequent repetitions.

(ii) Symbols or Words with Different Meanings: A symbol or a word can have different meanings. If the receiver misunderstands the communication, it becomes meaningless.

(iii) Faulty Translation: A manager receives information from his superiors and subordinates and translates it for all the employees according to their level of understanding. Hence, the information has to be moulded according to the understanding or environment of the receiver. If there is a little carelessness in this process, the faulty translation can be a barrier in the communication.

(iv) Unclarified Assumptions: It has been observed that sometimes a sender takes it for granted that the receiver knows some basic things and, therefore, it is enough to tell him about the major subject matter.

(v) Technical Jargon: Technical jargon is not so simple as to be understood by everybody. Hence, technical language can be a barrier in communication e.g. communication between industrial engineers, production development manager, quality controller, etc.

(vi)Body Language and Gesture Decoding: When the communication is passed on with the help of body language and gestures, its misunderstanding hinders the proper understanding of the message. For example, moving one's neck to reply to a question does not indicate properly whether the meaning is 'Yes' or 'No'.

PSYCHOLOGICAL/ EMOTIONAL BARRIERS

The importance of communication depends on the mental condition of both the parties. A mentally disturbed party can be a hindrance in communication. Following are the emotional barriers in the way of communication:

(i) Premature Evaluation:

Sometimes the receiver of information tries to dig out meaning without much thinking at the time of receiving or even before receiving information, which can be wrong. This type of evaluation is a hindrance in the exchange of information and the enthusiasm of the sender gets dampened.

(ii) Lack of Attention:

When the receiver is preoccupied with some important work he/she does not listen to the message attentively. For example, an employee is talking to his boss when the latter is busy in some important conversation. In such a situation the boss may not pay any attention to what subordinate is saying. Thus, there arises psychological hurdle in the communication.

(iii) Loss by Transmission and Poor Retention: When a message is received by a person after it has passed through many people, generally it loses some of its truth. This is called loss by transmission. This happens normally in case of oral communication. Poor retention of information means that with every next transfer of information the actual form or truth of the information changes.

(iv) Distrust: For successful communication the transmitter and the receiver must trust each other. If there is a lack of trust between them, the receiver will always derive an opposite meaning from the message. Because of this, communication will become meaningless.

ORGANISATIONAL BARRIERS

Organisational structure greatly affects the capability of the employees as far as the communication is concerned. Some major organisational hindrances in the way of communication are the following:

(i) Organisational Policies: Organisational policies determine the relationship among all the persons working in the enterprise. For example, it can be the policy of the organisation that communication will be in the written form. In such a situation anything that could be conveyed in a few words shall have to be communicated in the written form. Consequently, work gets delayed.

(ii) Rules and Regulations: Organisational rules become barriers in communication by determining the subject-matter, medium, etc. of communication. Troubled by the definite rules, the senders do not send some of the messages.

(iii) Status: Under organising all the employees are divided into many categories on the basis of their level. This formal division acts as a barrier in communication especially when the communication moves from the bottom to the top.

(iv) Complexity in Organisational Structure: The greater number of managerial levels in an organisation makes it more complex. It results in delay in communication and information gets changed before it reaches the receiver. In other words, negative things or criticism are concealed. Thus, the more the number of managerial levels in the organisation, the more ineffective the communication becomes.

(v) Organisational Facilities: Organisational facilities mean making available sufficient stationery, telephone, translator, etc. When these facilities are sufficient in an organisation, the communication will be timely, clear and in accordance with necessity. In the absence of these facilities communication becomes meaningless.

PHYSICAL BARRIERS

Physical distractions are the physical things that get in the way of communication. Examples of such things include geographical distance, an uncomfortable meeting place, background noise, poor lighting, uncomfortable sitting, unhygienic room, or an environment that is too hot or cold can affect people's morale and concentration, which in turn interfere with effective communication.

SOCIAL BARRIERS

Social factors shape the character of individuals within that society. They become a barrier to communication as they influence how individuals perceive a specific phenomenon. Social factors such as age, religion, gender, socioeconomic status, and marital status may act as a barrier to communication in certain situations.

CULTURAL BARRIERS

Culture shapes the way we think and behave. It can be seen as both shaping and being shaped by our established patterns of communication. Cultural barrier to communication often arises when individuals in one social group have developed different norms, values, or behaviours to individuals associated with another group. Cultural difference leads to difference in interest, knowledge, value, and tradition. Therefore, people of different cultures will experience these culture factors as a barrier to communicate with each other.

LINES OF COMMUNICATION

There are two *types of Business Communication* system named as One-way communication and Two-way communication. Though both the communication system transfers message or information, there are certain differences between them. When a message flows from sender to receiver only, it is called one-way communication. Here the sender communicates without expecting any feedback from the receiver. Radio or television programs or policy statements from top executives are examples of one-way communication.

On the other hand, two-way communication occurs when the receiver provides feedback to the sender. Making suggestion to a subordinate, face-to-face conversation, phone calls etc. are examples of two-way communication.

Two-way communication

In two-way communication when the receiver gets the message, they send back a response, acknowledging the message was received.

Two-way communication is essential in the business world. Messages are transmitted between employers, employees, customers, and other stakeholders, and feedback is required to be certain that the message was received and understood.

Merits

- Feedback helps to ensure that communication has been effective.
- Managers at different levels within the organisation give advice, inform and instruct on different issues. Proper understanding of these messages and further clarification is possible in the presence of two-way communication.
- Managers and subordinates can exchange information about their respective problems through two-way communication. Problems faced by subordinates can be reached to management through feedback.
- Two way communication enables subordinates to make suggestions to managers. This improves motivation levels and the quality of decisions made.
- Democratic management involves managers getting the views of their subordinates before making decisions. Obtaining such views is only possible through two way communication
- If information which is sent to the desired receiver contains any vagueness or confusion, it is difficult to understand the actual meaning of the message. To solve this problem, two way communication is the effective one.

Demerits

- Two way communication is time consuming
- It can be frustrating when the receiver abuses the opportunity of giving feedback to ask silly questions.

One way communication

In one way communication, information is transferred in one direction only, from the sender to the receiver. There isn't any opportunity for the receiver to give feedback to the sender.

One-way communication is frequently used when the sender wants to give factual information or when they want to persuade or manipulate their audience and gain their cooperation. Examples of one way communication include presentations, posters, notice boards, adverts, e.t.c.

Advantages

- Time saving as there is no need for feedback
- Ideal for routine tasks and in times of emergency

Disadvantages

- Lack of feedback can make communication ineffective
- Adverse impact on employee morale as their input in decision making is not required
- It can be demotivating to subordinates
- Can be a source of resistance to change

VERTICAL & HORIZONTAL COMMUNICATION

Horizontal communication occurs between people holding the same hierarchical position. Both written and oral methods are used to make horizontal communication effective. While vertical communication occurs between people holding different hierarchical positions e.g. manager and subordinates.

Vertical communication

Without communicating with superior and subordinate, no organization runs a single day. Communication without upper level and the lower level employee is very much essential for organization. Some advantages of vertical communication system are as follows:

Merits

- **Conveying message to subordinate:** Through upward direction of vertical communication system, the upper level management covey their suggestions, complains and recommendations to the subordinates.
- **Good labour relations:** There is systematic flow of information under his communication system, so a good relation can be developed between superior and subordinates.

▪ **Maintains organizational discipline:** There is a chain of command in vertical communication system. So, a sense of discipline may be developed among the employees.

- **Explaining policies and plan:** Through vertical communication system, upper level management can send the policies and procedures to the subordinates.
- **Effective decision making:** Superiors needed various information to make decisions making in the organisation. **Vertical communications** enable superiors to collect information form subordinates.
- **Help in decentralizations:** Duties and responsibilities can be delegated among departments thorough vertical communication.
- **Avoid by-passing:** Under this communication system superior and subordinates exchange message directly. So there is no chance to bypassing.
- **Maintains chain of command:** proper chain of commands is easily maintains through vertical communication system.
- **Assigning jobs and evaluating performance:** Vertical communication facilitates job assignment and job evaluation of the employees.

- **Increase efficiency:** Necessary instructions are sent to subordinates and they perform their duties and responsibilities accordingly that is help to increase efficiency for both superior and subordinate.

Disadvantages

In spite of having many advantages **vertical communication**, there are some disadvantages which are given below:

- **Delay process:** in large organisations, it is time consuming for information to move from the top to the bottom (bureaucracy).
- **Loss or Distortion of information:** Information may be fabricated by the employees to maintain lengthy channel. So, through his communication information may lose its originality.
- **Slowness system:** Vertical communication is the slowest communication method because it requires passing through the various levels of an organization. For this, it may become ineffective.
- **Negligence of superiors:** In this communication superiors can neglect to send message to their subordinates.

Horizontal communication

Advantages of horizontal communication:

The communication which is occurring among same level people on the organisational chart within the same department or across departments is called horizontal communication. The following advantages of horizontal communication exist:

- **Better Understanding:** Horizontal communication ensures better understanding, accordingly employees of different division able to perform their job more efficiently.
- **Coordination:** Direct communication by breaking the vertical channel strengthens the bondage between employees of different departments which helps to boost up co-ordination (social needs).
- **Increase Productivity:** Horizontal communication minimizes the problems of understanding among various departments as a result, productivity increased.
- **Better implementation of decision:** Decisions are made by top management but they are executed by the lower level employees. When lower level employees allowed communicating each other through horizontal communication, it helps to realize the policy and ensures better implementation of decision.
- **Motivation:** Horizontal communication not only increases the level of coordination but also facilitates the task of motivation by satisfying social needs.
- **Teamwork:** In any organization for some specific purposes teamwork is essential. Horizontal communication is a prerequisite for successful teamwork. (Fayol)
- **Job Satisfaction:** Another major advantage of horizontal communication is, it increases job satisfaction of the employees.

Disadvantages

- **Lack of control:** Sometimes too much horizontal communication creates problem for the management and controlling may become difficult as the horizontal communication increases.
- **Time consuming:** Communication in addition to vertical instruction may delay the implementation of decision.
- **Lack of discipline:** As strict rules are not followed organizational discipline also can be hampered in horizontal communication. Fayol emphasised the importance of discipline in his 14 principles.

FORMAL AND INFORMAL COMMUNICATION

Formal communication

The communication follows a hierarchical chain of command which is established by the organization itself. In general, this type of communication is used exclusively in the workplace, and the employees are bound to follow it while performing their duties e.g. requests, commands, orders, reports etc.

Informal communication/ Grapevine

The communication which does not follow any pre-defined channel for the transmission of information is known as informal communication. This type of communication moves freely in all directions, and thus, it is very quick and rapid. In any organization, this type of communication is very natural as people interact with each other about their professional life, personal life, and other matter e.g. sharing of feelings, casual discussion, gossips, etc.

Merits

1. **Interpret**: The information is given by the top level management under the formal system. It is easy for the employees to take the explanation by informal system. So this system plays a vital role to complete the work properly.
2. **Present grievance**: Under the informal system the employees disclose their needs, sentiment and their emotions to others authority without feeling any hesitation.
3. **Alternate system**: The management sometimes is not able to obtain all information by formal system. Informal system covers the gap.
4. **Improved relationship**: Any problem between the workers and the management can be solved by informal system. So it makes good relationships among the employees and the management.
5. **Increase efficiency**: Under the informal system, the employees discuss their problem openly and they can solve it. For this, the work is done properly and it develops the efficiency of the employee.
6. **Providing recommendation**: In this system the employees inform their superior about their demands, problem and the way to develop the implementation system of the work. As a result it creates an opportunity to send the recommendation to management.
7. **Flexibility**: Informal communication is more flexible than formal communication because it is free from all type of formalities.
8. **Rapid communication**: It transmits very fast. Especially miss-information or rumour spread rapidly to others in the organization.
9. **Improve interpersonal relationship**: Cooperation and coordination in informal communication leads to improve interpersonal relationship which is very much essential to carry out the business activity smoothly (social needs).

Disadvantages of grapevine or informal communication

1. **Distort meaning**: Sometimes the meaning and the subject matter of the information is distorted in this system.
2. **Spread rumour**: In this system, the miss-information or rumour spread rapidly. The original information may be transformed to wrong information.
3. **Misunderstanding**: Under this system, generally, the employees do not obey the formal system. So it creates the opportunity to develop misunderstanding.
4. **Maintaining secrecy is impossible**: In informal communication system maximum communication is made by open discussion. So it is impossible to maintain the secrecy of the information.
5. **Difficulty in controlling**: Under informal communication system no established rules or policy is obeyed. So it is very much difficult to control the information.
6. **Non-cooperation**: Informal communication system sometimes develops the adversary culture among the employees. So they are not to be cooperative with each other and their efficiency may be reduced. This is common in cases where motivation levels are low (resistance to change).

Marketing management

Marketing management is the process of identifying consumer needs and satisfying them at a profit. The needs include both current and future needs.

Market definition

The term market refers to the group of consumers or organisations that is interested in the product, has the resources to purchase the product and is permitted by law and other regulations to acquire the product.

This definition is different from the common misconception of defining a market as a physical place. This definition is too shallow as technological improvements have made it possible for trade to take place in the absence of physical contact between buyers and sellers.

Role of marketing

Marketing managers are responsible for most of the activities necessary to create the customers the organization wants. Marketing activities include:

- Identifying customer needs
- Designing goods and services that meet those needs
- Communication information about those goods and services to prospective buyers
- Making the goods and services available at times and places that meet customers' needs
- Pricing goods and services to reflect costs, competition and customers' ability to buy
- Providing for the necessary service and follow-up to ensure customer satisfaction after the purchase

Marketing and other functions

Profitability is the ultimate purpose of marketing, it is there to help organizations achieve their objectives. In the case, the major objective of private firms is profit. Private firms should aim to achieve profits as a consequence of creating superior customer value, by satisfying customer needs better than competitors. This shows that the marketing function is critical for the success of any organisation. The relationship between marketing and other organisational functions is discussed below;

1. **Production:** the production function is responsible for manufacturing products to be consumed by customers. The production department must produce goods and services that satisfy the needs of the customers for the organisation to be successful. It is the duty of the marketing department to ensure that the firms products satisfy the needs of the customers, therefore the two functions have to work hand in hand in achieving this. The marketing department will provide consumer feedback to the production department.
2. **Finance:** the finance department is responsible for handling the financial matters of the organisation. The major source of revenue in any organisation is sales revenue. For the finance department to perform its duties effectively it has to rely mainly on the marketing function. They have to work together in matters to do with pricing decisions and credit policy issues e.g. cash discounts, credit periods, e.t.c.
3. **Human resources:** the HR function has the duty to hire and retain competent staff within the organisation. Individuals value security therefore they prefer competitive organisations. The marketing function is responsible for ensuring that the organisation's products are competitive in the market. This implies that the HR functions become easier if the marketing function is operating efficiently.

To sum up, the marketing function is central to the success of every organisation. It plays a critical role of staff advisory role to other organisational functions. This explains why most successful entities in the history of business are market oriented.

ANALYSING THE MARKET

The goal of market analysis is to determine the attractiveness of a market and to understand its evolving opportunities and threats as they relate to strength and weaknesses of the firm. The dimensions of a market analysis are as follows:

- Market size (current and future)
- Location
- Segments
- Competitors

Market size

- The size of the market can be estimated by the local sales of all firms in the market.
- The market size can be expressed in sales value, i.e. the total amount spent by consumers in buying the products

- Is can also e expressed in sales volume i.e. the physical quantity of goods which are produced and sold
- The calculation can also include potential customers
- The bigger the market the more competitors the business is likely to have. Therefore, for a big market there is need to make sure products and services stand out. Otherwise, the customers can easily switch to a rival product.

Target Market (segment)

- The target market is the type of customers which the business target within the market. For example a jewellery dealer can either be a generalist or decide to focus on the high end or the lower end of the market.
- This section is relevant when the market has clear segments with different drivers of demand. In the example of jewels, value for money would be one of the drivers of the lower end market whereas exclusivity and prestige would drive the high end.

Location

- Choosing location for any physical business should be a careful consideration that takes into account many aspects of the target market.
- In addition, businesses must consider the area availability of other alternative products (competitors) direct and indirect.
- A good location, with little competition, but ready access to consumers who make up a good portion of the business' target demographics can represent ample opportunity for effective marketing designed to generate maximum results.
- The business must be located in a position that offers it greatest merits with minimal costs. However, it can be necessary to locate closer to competitors so as to enjoy external economies of scale.

Competitor

- The main goals of a competitor analysis are to understand who your competitors are, what strategies they are using and have planned, how competitors might react to your company's actions, and how to influence competitor behaviour to your advantage.
- The main idea is to analyse competitor's angle to the market in order to find a weaknesses that the business will be able to use in positioning its own product.
- This also includes trying to predict the competitor's reactions to the entity's actions. This will go a long way in avoiding self destructive marketing strategies such as price wars.

Market segmentation

- Market segmentation is the process of identifying distinct groups and or sub groups of customers in the market, who have distinct needs, characteristics, preferences and behaviours, and require separate product and service offerings and corresponding marketing mixes.
- Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix.
- Markets can be segmented on the basis of
  - geographical location e.g. Harare & Bulawayo markets
  - demographic trends, e.g. age, religion and sex
  - Psychographic – Lifestyle – Attitudes about self, family, and society.

Benefits of Segmenting and Targeting Markets

1. The marketer can examine the needs of each segment and determine to what extent the current offering satisfies these needs. This ensures that all customers are satisfied thus creating a competitive advantage for the business.

2. Efficient allocation of resources as marketing efforts is directed towards a specific segment. This enables the organisation to gain a competitive edge in all market segments

3. It facilitates the setting up of realistic sales targets

4. Enables management to identify profitable segments which require special attention

Demerits of segmentation

1. Segmentation increases costs. When a firm attempts to serve several market segments, there is a variation of products. Cost of production rises due to shorter production runs and product variations.

2. Larger inventory has to be maintained by both the manufacturer and the distributors. This arises from the fact that each product is produced for a specific segment which means high levels of stock must be maintained. This increases stock holding costs.

Niche v Mass Marketing

Niche marketing

Niche marketing involves identifying and servicing of one segment of a larger market. This segment can be one that has not been identified and filled by competitors and is a very **small** section of the market

Merits

- Less capital invested in the business as business has to produce a limited output for the niche market
- There is reduced competition in niche markets
- Reduced business risk as the marketing activities are focused on a very small segment of the market
- Niche marketing creates brand loyalty as the needs of the consumers are satisfied

Demerits

- Limited competition in niche markets may disadvantage consumers thus negatively affecting the living standards
- Niche marketing cannot be sustainable in future as niche markets may fail to provide adequate business in future as the business grows
- Large firms can enter these niche markets and the survival of the business comes under threat if it depends solely on the niche market
- Lack of economies of scale due to restricted output levels

Mass marketing

Mass marketing involves selling the same products to the whole market with no attempt to target separate groups (one size fits all)

Merits

- The business can enjoy economies of scale in production, and marketing
- Reduced risk as the business does not depend mainly on a single segment of the market
- Mass marketing results in competition which in turn improves efficiency of the business operations. This improves the living standards of the citizens
- It is effective strategy in markets were customer needs are general e.g. developing nations were the consumer incomes are generally lower

Demerits

- The assumption that consumer needs are similar is not accurate and the business may lose some of its customers

Marketing Orientation

Businesses can develop new products based on either a marketing orientated approach or a product orientated approach.

- A **marketing orientated** approach means a business reacts to what customers want. The decisions taken are based around information about customers' needs and wants, rather than what the business thinks is right for the customer. Most successful businesses take a market-orientated approach.
- A **product orientated** approach means the business develops products based on what it is good at making or doing, rather than what a customer wants. This approach is usually criticised because it often leads to unsuccessful products.
- Most markets are moving towards a more market-orientated approach because customers have become more

knowledgeable and require more variety and better quality.

- To compete, businesses need to be more sensitive to their customers needs otherwise they will lose sales to their competitors.

Market research

Marketing research means finding out about the product and its marketplace. It is an important part of identifying and anticipating customers' needs. Once the product has been bought, marketing research can be used to see if the customer was satisfied.

A business might carry out marketing research to:

- Find data and information that help a business understand what customers want now or in the future.
- Find out whether current products are satisfying customers.
- Test new products by asking potential customers to try out the product.
- Assess the results of its promotional strategy e.g. test the effectiveness of an advertising campaign.
- Understand the activities and strategies of competitors.

The two main kinds of marketing research are Primary (field) research and Secondary (desk) research.

SECONDARY RESEARCH

- It involves the analysis of information which already exists in some form
- This information was originally collected for a different purpose
- The sources of primary data can be internal (within the organisation) or external sources which are outside the organisation
- Examples of internal data sources are internal reports, sales trends, inventory movement records and consumer and customer records
- External sources of secondary data include newspapers, Gvt publications, internet, economic surveys and libraries

Advantages

- Secondary research materials are usually cheaper to obtain as costs as the organisation did not have to bear costs of conducting the research
- It is used to acquire information that is difficult to acquire using primary research e.g. information about competitors is hardly obtainable through primary research
- The information can be obtained quickly as the long processes involving data gathering are avoided
- The nature of the market can be identified including details about market size and market growth
- Basic information like population structure and others can be obtained, this information provides a foundation for primary research and may make primary research easier to conduct
- Data from various sources can be compared this improves the quality of decisions

Demerits

- Data could be outdated as the different sources don't conduct researches on a regular basis
- The data obtained may not suit the objectives of the business as it may have been conducted for a different purpose so its presentation may not be that helpful. However, the researcher must select sources which are relevant to the phenomenon under review
- The methods used by different organisations in their primary data collection could have been inaccurate
- Secondary information is at times not available e.g. in instances were new product has been developed

PRIMARY/ FIELD RESEARCH

- Primary research involves getting original data directly about the product and market. Primary research data is data that did not exist before.
- It is designed to answer specific questions of interest to the business for example, what do customers think of a new version of a popular product?
- To collect primary data a business must carry out **field research**, i.e. the researchers go to the customers to get the relevant data

Advantages

- Information obtained is up to date.
- Specific to the purpose i.e. asks the questions the business wants answers to.
- Collects data which no other business will have access to (the results are confidential).

- In the case of online surveys and telephone interviews, the data can be obtained quite quickly

Disadvantages

- Can be difficult to collect and/or take a

  long time to collect.
- Is more costly to collect.
- May provide misleading results if the sample is not large enough or chosen with care
- The results depend on the quality of the research procedures an instruments, e.g. the questionnaire questions might not worded properly.

QUANTITATIVE V QUALITATIVE RESEARCH

Quantitative research

- Quantitative research is all about quantifying relationships between variables. You measure variables on a sample of subjects. You express the relationship between variable using effect statistics, such as correlations, relative frequencies, or differences between means.

Qualitative research

- Qualitative research adopts an interpretive approach to data, studies `things' within their context and considers the subjective meanings that people bring to their situation. It seeks to establish the reasons behind the relationship between variable e.g. why consumers prefer our brand

Methods of gathering data

a. Questionnaires

A questionnaire is a technique of data collection in which each person is asked to respond to a written set of questions in a predetermined order. A questionnaire can be regarded as a series of questions; each providing a number of alternative answers from which the respondents can choose. Questionnaires are useful, as a method of gathering data which is descriptive of current events, conditions or attributes of a population at a particular point in time.

Advantages

- Questionnaires are cheap and the researcher does not incur high travel accommodation expenses. They can be distributed by post.
- Questionnaires are a relatively quick way of receiving a response. They can be distributed at the same time
- They avoid interview bias. Personal questions are often more willingly answered as respondent is not face-to-face with the interviewer.

Disadvantages

- As questions need to be simple and straight forward, the richness of information that sometimes is collected with other methods is lost.
- The respondents have to be literate
- Impossible to receive a spontaneous answer as respondents may discuss question with others before completing the questionnaire. As all questions are seen before they are answered, the answers cannot always be treated as independent.
- Respondents gestures and facial expressions could not be observed as these are essential communication signs that can effectively be used to evaluate responses.
- One cannot be sure that the named respondent has completed the questionnaire. For instance, a busy manager may ask a personal assistant to complete it on his behalf.

b. Personal interviews

Interviews are used to collect data from a small group of subjects on a broad range of topics. The researcher can use structured interviews. Structured interviews use the same questions in the same order for each respondent with multiple choice answers. Unstructured interview questions can differ per respondent and can depend on answers given on previous questions. Interviews can be conducted face to face or over the telephone

Advantages

- The real benefit of an interview is that there is instant feedback thus any misunderstandings are cleared immediately.
- During the interview the researcher can rephrase the questions if something unexpected happen.

- The interviewer can encourage the respondents to answer as fully as possible and check as appropriate, that the question is correctly understood.

- Response rates are usually higher than for the other methods of questionnaire administration.
- Materials that need to be shown to respondents can be properly presented.

Disadvantages

(a) They are time consuming, taking into consideration the length of the interview, the time taken travelling to and from interview and notes revision.
(b) Interviews are subject to bias as some interviewees may tend to please the interviewer and as a result may not tell the truth.
(c) Relatively costly in monetary terms and also time consuming.

Consumer panels

These are groups of consumers in specific sectors recruited by the researching organisation to be used as respondents to answer specific research questions. The usually comprises of specialists who participate in different research projects.

Advantages

- Low cost of collecting data and the research can be completed in a shorter period
- Effective in collecting qualitative data
- Reliable data is collected as knowledgeable consumers are included in the panels

Disadvantages

- Selection of the panel could be biased
- The opinions of the panel may not be representative of the whole population
- Difficult to collect quantitative data

Sampling

This is the process of selecting a proper subset of elements from the full population so that the subset is used to make inference to the whole population. A sample is a group of subjects from whom the researcher collected information. A sample is small part of the population, which has the same characteristics of the population

Sampling technique

There are basically three methods of sampling under random sampling.

Simple random sampling

Simple random sampling is a method, which ensures that each element of the population has an equal chance of being selected to become part of the sample.

Advantages

- Eliminates the risk of sampling bias
- Accurate data is obtained
- Information is easily accessible
- Works better with a little sample

Disadvantages

- Data is limited to a small sample
- High cost when a large sample is covered
- Relatively difficult to explain the techniques

Stratified sampling

In a stratified sample the sampling frame is divided into non-overlapping groups or strata, e.g. geographical areas, age-groups, gender. A sample is taken from each stratum, and when this sample is a simple random sample it is referred to as stratified random sampling.

Advantages

- Divisible into relevant strata
- Data obtained is accurate
- Easily accessible
- Low costs associated with the sampling process

Disadvantage

- the strata may not be representative of the population structure

Quota sampling

It involves stratifying the population into mutually exclusive sub groups in the same manner as defined in stratified sampling method. This method involves the respondents being selected in proportions which are representative of the population structure e.g. if the population has 55% females the sample collected will have the same component

Merits

- The sample is more representative of the population
- It is easier to use as there is no need for a sample frame
- Stratification allows researchers to compare data collected from different strata

Demerits

- Risk of sampling bias as respondents can be selected based on ease of access and costs, this may make the sample less representative
- It must be possible to divide the population into different strata, i.e. each subject must belong to only one strata
- In cases were more strata are identified, it can result in a larger population size which can lead to higher costs

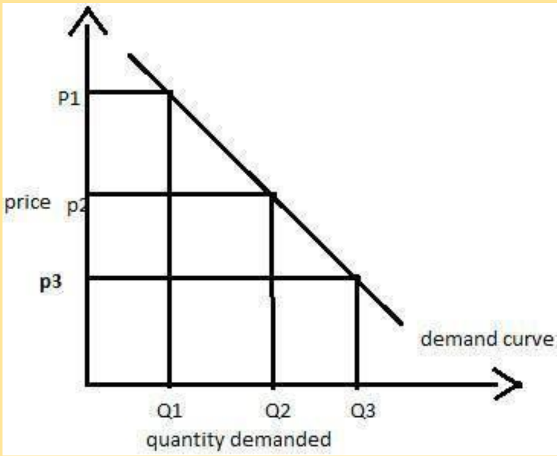
Sample size

For any sample design, deciding upon the appropriate sample size is very important as it affect the findings of the research. A good sample must be representative of the population. There is a risk inherent to sampling that the sample may fail to be representative of the population. This risk is termed ***sampling risk.*** A bigger sample is desirable than a smaller sample as it improves the confidence level of the findings. Therefore, if a higher degree of confidence is required, a larger sample is required. However, the bigger the sample the higher the research costs and the longer it takes to conclude the research.

ELASTICITY OF DEMAND

Demand

- Demand refers to the willingness and ability of a consumer to pay a price for a specific good or service
- The demand for a product is inversely related to its own price i.e. other things being equal, more of a commodity is demanded at a lower price
- The relationship between the demand for a product and its own price is illustrated in the diagram below



The diagram shows that at a higher price the quantity demanded is low, the quantity demanded increases as the price falls. The resultant curve is called a demand curve. The curve shows the quantities which consumers are willing to buy at a given price.

Factors affecting demand

The demand for a product is dependent on a number of factors which include

i. Price of the product: it is the most important determinant of demand. It can be observed that, other factors being constant, rational consumers buy more of a product at lower prices and vice versa.

ii. Price of related products. Related products can be classified into substitutes and complimentary goods. Substitutes are goods which can be used in place of the other e.g. beef and chicken. An increase in the price of beef can cause increased demand for chicken. Compliments are jointly consumed goods e.g. bricks and cement. Reduced demand for bricks will adversely affect demand for cement, therefore increasing the price fo

iii. r bricks cars can reduce demand for cement.

iv. Income: when consumer income increases, their purchasing power increase, this causes demand for normal goods to increase. A fall in income causes a decrease in demand for the product

v. Future expectations: speculative tendencies e.g. an anticipated price rice will prompt consumers to demand more as a measure to cushion themselves from the anticipated price increase e.g. in a bad agricultural season consumers may anticipate an increase in the price for maize so they can demand more maize

vi. Consumer tastes and preferences: changing tastes and preferences can have a significant impact on demand. This is to do with fashion and is mainly affected by persuasive advertising, e.g. most modern ladies prefer tight fitting clothes as compare to prior generations

vii. Weather: it affect seasonal products e.g. jerseys in winter, ice creams in summer

viii. Number of consumers in the market: the more the number of consumers in the market the higher the demand for the product. For instance, a shop located near a university would make increased sales volumes when the university is open as compared. This is partially attributable to the fact that during the vacation fewer consumers are in the market.

Elasticity of demand

Demand elasticity, in economics, refers to how sensitive the demand for a good is to changes in other economic variables which affect demand. Demand elasticity is important because it helps firms model the potential change in demand due to changes in price of the good, the effect of changes in prices of other goods and changes in consumer incomes. A firm grasp of demand elasticity helps to guide firms toward more optimal competitive behaviour. We are going to discuss 3 types of elasticities which are

- Price elasticity of demand
- Income elasticity of demand
- Cross elasticity of demand

Price elasticity of demand [PED]

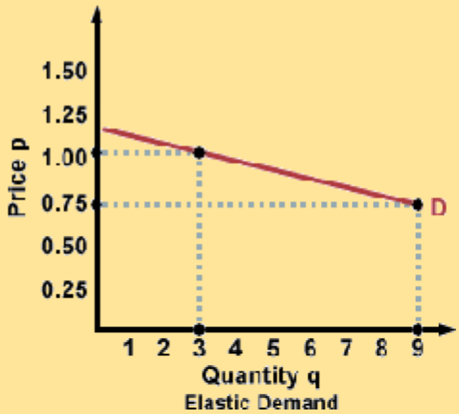
Price elasticity of demand is a measure of the responsiveness of the quantity demanded of a particular good and a change in its own price. Price elasticity of demand is a term in economics often used when discussing price sensitivity. The formula for calculating price elasticity of demand is:

$$\frac{\%}{\%}$$

- The PED coefficient is always negative because of the inverse relationship between price and quantity demanded.
- When interpreting the coefficient, the negative sign is ignored and if the value is greater than 1 demand is said to be elastic while a value less than 1 shows that demand is inelastic

Elastic demand

- Demand is elastic whenever a change in price will trigger a more than proportionate change in quantity demand
- This means a small change in price will cause a greater change in quantity demanded as shown in the diagram below

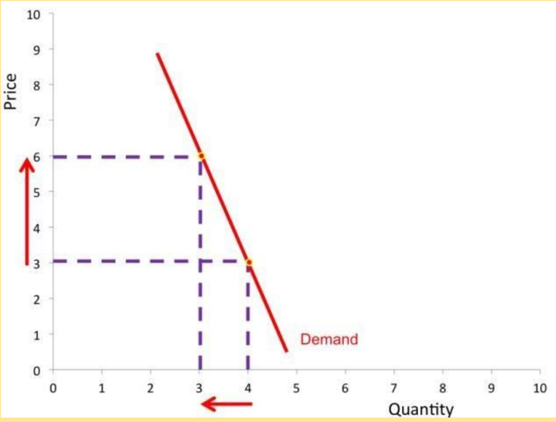


The diagram shows a 25% price cut from $1 to $0.75. This resulted in an increase in quantity demanded of in a 200% from 3units to 9 units. Therefore, the PED coefficient is [200/-25] -8, this shows that demand is more sensitive to price changes (elastic)

- The concept of elasticity is used to enable management to assess the effect of adjusting the price to the total revenue of the business
- Total revenue is obtained by multiplying the number of units sold with the selling price. Diagrammatically, it is represented by the rectangular shape under the demand curve below the price and to the left of the quantity demanded.
- This implies, the greater the total revenue the better for the business, because revenue contributes positively to profits
- When demand is elastic reducing the price will result in an increase in total revenue as the firm foregoes a smaller proportion of income to get a higher amount
- When deciding on the appropriate marketing mix, the marketing manager has to consider the PED
- However, the concept of elasticity is more relevant to firms pursuing the revenue maximising objective as economic theory highlights that profits are not maximised when total revenue is at its maximum

Inelastic demand

- Demand is inelastic when a price change will result in a less than proportionate (smaller) change in quantity demanded
- Demand is less sensitive to price changes, therefore customers continue to demand the product despite a price increase, in the same sense a price fall does not motivate consumers to buy much more.
- When demand is inelastic, reducing the price results in a fall in total revenue while increasing the price increases the total revenue
- This is illustrated in the diagram below



The diagram shows a relatively inelastic demand curve were a 100% price increase has resulted in a 25% decline in quantity demanded. This gives us a PED coefficient of [-25%/100%] 0.25.

- When demand is inelastic increasing the price will increase the total revenue because customers will continue to demand the product despite price increase
- It is advisable for the business to increase the price whenever it faces an inelastic demand curve

INCOME ELASTICITY OF DEMAND

This measures the sensitivity of quantity demand to changes in the levels of consumer disposable income. It is given by the formula

$$\frac{\%}{\%}$$

The formula gives us the income elasticity of demand (I.E.D) coefficient.

Interpretation

The coefficient can either be negative or positive. The direction sign shows the relationship between quantity demanded and income i.e. weather quantity demanded varies directly (+) or inversely (-) with income. The results are used to classify goods into normal and inferior goods.

Normal goods (+ Y.E.D. Coefficient)

- ➢ Normal goods are goods whose quantity demanded increases as consumers' disposable incomes increase, if other factors are held constant.
- ➢ Examples of normal goods are motor cars and luxurious products which consumers

consume as their disposable income increases. On the other hand consumers will demand less of the normal good as their disposable incomes decline.

Inferior goods [- IED]

- Inferior goods have a negative I.E.D. coefficient, this means quantity demanded varies inversely with changes in income.
- This means, other things being equal, quantity demanded for inferior goods falls as the disposable incomes of consumers' increases and the reverse is true.
- Examples of inferior goods include soya mince and second band clothes (baled clothes) because as consumer incomes increase they tend to substitute soya mince with meat products, in the same sense second hand clothes became popular in Zimbabwe in times were the real incomes of consumers started declining.

Application of the concept of IED

Marketing managers should have an understanding of the concept of Y.E.D. for them to classify their product as either a normal or inferior good. This knowledge is necessary for management to make sales forecasts e.g. a producer of inferior goods has to forecast increased demand in times of recession while a producer of normal goods has to anticipate increased demand in times of economic growth. The income elasticity of demand concept is very important in resource allocation i.e. in times of recession more resources should be allocated towards the production of inferior goods on the other hand in booming times more resources must be allocated towards the production of normal goods.

CROSS ELASTICITY OF DEMAND

It measures the degree of responsiveness of the quantity demanded of one good to changes in the price of another good. The cross elasticity of demand coefficient is computed using the formula

$$\frac{\%}{\%}$$

Interpretation of the CED coefficient

When other factors remain constant the C.E.D. coefficient is used to define the relationship between two products. The coefficient is used to classify the relationship between products into substitutes or compliments

Substitutes [Positive coefficient]

- Substitutes goods are goods which can be used in place of the other e.g. margarine can be used in place of butter so butter and margarine are substitutes.
- The C.E.D. coefficient is positive for all substitute goods because an increase in the price of a substitute will influence consumers to substitute the more expensive product with the cheaper one. This causes the quantity demanded of the other product to increase in response to an increase in the price of the other product.

Complements [Negative coefficient]

- Compliments are goods which are jointly consumed i.e. a single good cannot satisfy the consumer on its own e.g. motor vehicle and fuel, one cannot travel with either of the two therefore having fuel or motor vehicle alone won't make the situation any better.
- If the C.E.D. coefficient is negative for supplementary goods, it shows that an inverse relationship exists between the quantity demanded of one product and the price of the other.
- An increase in the demand of the a compliment, ceteris paribus, causes a decline in the quantity demanded of that product e.g. an increase in the price for liquid petroleum gas results in a decline in its quantity demanded of gas tanks.

Application of CED concept

The marketing manager must preserve the market share by adjusting the price in line with changes in the prices of other related products.

Substitutes

- The business tends to benefit if a competitor raises the price of its product, therefore management hat to take no action if the price of a substitute increases, this will result in increased demand for the business's products

- The business can respond by considering increasing the scale of production if the competitor firm hikes its price
- On the other hand, a decline in the price of a substitute has negative effects on the demand of the firms product.
- Management can consider responding by cutting its price if a substitute good had its price cut

Complimentary goods

- Management has to consider by reducing the price of a complimentary good in the event that the price of the other compliment has increased
- This serves to compensate the consumer for the price rise as the consumer considers the total cost of purchasing the product as opposed to the individual costs of the individual components
- If the price of compliments has declined the firm can anticipate increased demand, and plan for it. It can also consider increasing it price

Promotional spending elasticity of demand

It measures the responsiveness of quantity demanded to a change in promotional expenditure.
It is given by the formula

$$\frac{\%}{\%}$$

Interpretation

- If the coefficient if greater than 1, it shows that demand is more responsive to changes in promotional expenditure e.g. advertising
- Whenever a change in advertising expenditure triggers a more than proportionate change in quantity demand. It is advisable to increase investment in advertising expenditure because it yields a greater increase in market share
- However, if demand is less sensitive to promotional expenditure it is advisable for the business to cut on promotional expenditure as the cost of doing so outweighs the benefits
- Demand is more sensitive to changes in promotional expenditure in the introduction and growth stage of the PLC while it becomes less sensitive in the growth and decline stage

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FORECASTING

Forecasting is the use of historic data to determine the direction of future trends. Businesses use forecasts to allocate resources e.g. budgets are based on projected demand.

Need for forecasting

Businesses need to forecast for them to enjoy the following advantages associated with proper planning. The main reason for forecasting is to enable businesses to make quality decisions in the face of an uncertain future. The benefits of forecasting are outlined below

1. **Inventory and product management:** sales forecasting allows the business to efficiently manage inventory levels to avoid stock outs and minimise stock holding costs. Having an idea about the expected sales volume ensures that the business has sufficient inventory levels to meet forecasted demand,
2. **Customer information:** sales forecasting allows management to establish trends for individual customers based on demand patterns. This will help in the formulation of a marketing strategy which appeals to the different classes of customers.
3. **Formulating Plans:** Forecasting provides a logical basis for preparing plans. It plays a major role in managerial planning and supplies the necessary information. The future assessment of various factors is essential for preparing plans. In fact, planning without forecasting is impossibility. Henry Fayol has rightly observed that the entire plan of an enterprise is made up of a series of plans called forecasts
4. **Long term planning:** valid sales forecasts give the business a framework for setting realistic goals for its sales teams. Realistic forecasts enable managers to apply a proactive approach in managing the affairs of the business in matters related to the recruitment and training of employees based on forecasted demand. Forecasts gives management time to arrange the

financing needed for financing. Management can plan new facilities for production and storage when and where they will do the most good.

To sum up, forecasting is a necessity to every business organisation. The success or failure of any organisation depends mainly on its ability to make realistic forecasts

FORECASTING METHODS

Forecasting methods can be divided into qualitative and quantitative. The approach used is dependent on the nature of information available for forecasting purposes.

Quantitative forecasting

Quantitative forecasting involves the use of numerical facts and historical data to predict upcoming events. Quantitative forecasting can be applied when two conditions are satisfied:

i. numerical information about the past is available;
ii. it is reasonable to assume that some aspects of the past patterns will continue into the future.

Time series and forecasting

A time series is a collection of data over a period of time on a regular basis e.g. weekly, monthly or annually.

Moving Averages: forecasting Method

Moving averages try to estimate the next period's value by averaging the value of the last couple of periods immediately prior. For example a business has been operational for three months, January through March, and wants to forecast April's sales. If sales for the last three months look like this:

Month	**Sales ($000)**
January	129
February	134
March	122

The simplest approach would be to take the average of January through March and use that to estimate April's sales:

(129 + 134 + 122)/3 = $128.333

Hence, based on the sales of January through March, you predict that sales in April will be $128,333. Once April's actual sales come in, you would then compute the forecast for May, this time using February through April. One has to be consistent with on number of periods used in computing the moving average.

Moving averages smooth out the effect of seasonal fluctuations in making forecasts which make them more reliable. However, the number of periods used in moving average forecasts is arbitrary, one may use only two-periods, or five or six periods – whatever is desired to generate the forecasts.

Advantages of quantitative forecasting:

- Numerical information is easier to interpret and easy to analyse for example graphs can be made.
- Data can be objectively interpreted and bias is often not an issue.

Disadvantages of quantitative forecasting:

- May lack detail.
- Correlations do not show cause and effect, so may be hard to determine this.
- Extrapolation may be reductionist – just because there has been a 5% increase in sales over the last few years, doesn't mean this will continue. External factors may affect such forecasts.

Qualitative forecasting

- Qualitative forecasting is an estimation methodology that uses expert judgment, rather than numerical analysis. This type of forecasting relies upon the knowledge of highly experienced employees and consultants to provide insights into future outcomes.
- Qualitative forecasting is most useful in situations where it is suspected that future results will depart markedly from results in prior periods, and which therefore cannot be predicted by quantitative means.
- For example external factors such as government policy review may break a trend which has existed over time
- Qualitative forecasting is effective in instances were historical data is not

available e.g. in cases where the product is still new.

- This approach to forecasting can be used to compliment quantitative forecasting e.g. management can modify historically derived trends in line with expert opinion

Limitations of qualitative forecasting

- The method is subjective, therefore it is prone to bias
- Experts may tend to greater emphasis to recent historical events in extrapolating future trends

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MARKETING STRATEGY [MIX]

The **marketing mix** deals with the way in which a business uses price, product, distribution and promotion to market and sell its product. The marketing mix is often referred to as the **"Four P's**" - since the most important elements of marketing are concerned with:

i. **Product** - the product (or service) that the customer obtains.
ii. **Price** - how much the customer pays for the product.
iii. **Place** – how the product is distributed to the customer.
iv. **Promotion** - how the customer is found and persuaded to buy the product.

It is known as a "mix" because each ingredient affects the other and the mix must overall be suitable to the target customer.

For instance:

- High quality materials used in a product can mean that a higher price is obtainable.
- An advertising campaign carried in one area of the country requires distribution of the product to be in place in advance of the campaign to ensure there are no disappointed customers.
- Promotion is needed to emphasise the new features of a product. The marketing mix is the way in which the marketing strategy is put into action - in other words, the actions arising from the marketing plan.

<u>PRODUCT</u>

Product Portfolio planning

It is a business process by which organisations determine the set of innovation and new product development investments the business will fund and those it won't fund in order to achieve the business objectives.

Product development

To achieve their objectives, businesses need to develop new products. Product development refers to the processes involved in bringing a new product to the market. However, before a business can launch a new product, it needs to go through several stages before it appears in the market place. The main stages are:

- **Marketing research** – find out what customers want, who they are, and where the gaps are in the marketplace
- **Product development and testing** – make prototypes; experiment by allowing a sample of potential customers to trial the product before it is launched
- **Distribution of product to outlets** – the product cannot be sold unless it is in a position for customers to buy it – books will need to be in the bookshops and hammers in the hardware stores
- **Promotional launch to inform customers features of new product,** the customers need to know that the product is ready, available and that it might be the sort of thing they want to buy

At the first two stages (marketing research and product development/testing) some products are rejected because the findings of research shows that it will not be successful. Product testing might show that customers react badly to the product.

The new product launch needs all the elements of the mix to be in place to be successful.

Sources of new product ideas

New products are the lifeblood of every business. If any business doesn't develop new product continuously it faces challenges in gaining a competitive edge. For developing new products there have some stages and generating ideas is the first step of new product development process. It is important to have a great idea first and then the business can start the new product development process. For getting great ideas there have 6 great sources. Basically the sources can be divided into two types- one is internal sources and another one is external sources. All the sources are discussed below:

Internal Sources:

1. **R & D (Research and Development):** It is the formal department of any organization to generate new ideas. R&D department research according to the company's future plan and then come up with the new ideas which complete its journey with the commercialization of the idea (product).

2. **Employees:** Companies can use the ideas of their employees. This is done through meetings and other democratic management practices. All level of employees from executive to top management can be the great source of ideas.

External Sources:

Some important external sources for idea generation is discussing below.

3. **Customers:** Most probably customers are the most important sources to get new product development ideas. Customer knows best what they need and what they are looking for. It is the most important thing to deliver satisfaction by providing exactly what your customers want. For instances, when you know that your customer need a specific product or a special feature on any particular product then it will be easier to make that exactly what your customer need and then customers get satisfied. This creates customer loyalty.

4. **Distributors and Suppliers:** Distributors works very closely with the market and they know consumer problems and their need. Distributors can give the ideas for new product possibilities. Suppliers can also help with the information of the market like new concept, technique or materials which can be used for developing new products.

5. **Competitors:** Competitors are another important source. One can analyze their competitors and can find many things which can be used for idea generation. Researching competitors can give the business an idea that which thing it is missing or which thing they are missing, this enables management to decide on features which need to be included in the new product. Therefore, ***competitors are not your enemy, they are your source of strength***.

6. **Others:** Other idea sources includes outside Consultancies, Design Firms and Online Communities, Trade Magazines, Shows and Seminars, Government agencies, Advertising agencies, Marketing research firms, Universities, Commercial laboratories, Inventories and so on.

Importance of research and development

A business which decides to invest in R & D will enjoy the following advantages

- **Competitive Advantage**. Those with constant R&D investments are at a higher chance in succeeding in the global market. And to attain the best professional advantage, R&D investments demand to come hand in hand with relevant investments, like market development as well as brand new business processes.
- **Tax Credits.** The government supports firms investing in R&D by offering tax incentives e.g. preferential tax rates
- Growth in Sales**.** There is a positive relationship between the amount of effort put into research and development, and the way a company performs. Corporations that use R&D investment as the main driver for progress are inclined to achieve better outcomes for investors.
- **Innovation.** Emerging with fresh ideas can work as a tool for an entire period of new products and services that transform the economic system, improving its power and vitality. Innovation does not happen without Research and Development. R&D can easily lead to highly valued technologies, strategies and designs for the business that could be the origin of potential value when considering sustaining a competitive advantage.

Types of markets

- ***Consumer markets*** include those individuals and households who buy consumer goods and services for their own personal use. They are not interested in reselling the product or setting themselves up as a manufacturer.

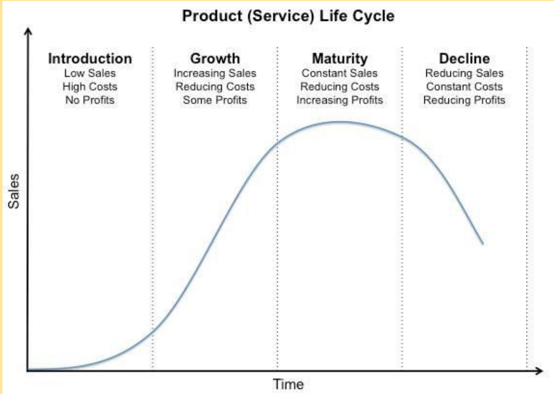
- The ***industrial market*** consists of organizations and the people who work for them, those who buy products or services for use in their own businesses or to make other products.

There is substantial evidence that industrial markets function differently than do consumer markets and that the buying process in particular is different.

The Product Lifecycle

A business has to be good at both developing new products and managing them in the face of changing tastes, technologies, and competition. Evidence suggests that every product goes through a lifecycle with predictable sales and profits, as illustrated in the diagram below. As such, the manager must find new products to replace those that are in the declining stage of the *product lifecycle* and learn how to manage products optimally as they move from one stage to the next. The four stages of the PLC and their components can be defined as follows:

1. *Introduction:* the period during which a new product is introduced. Initial distribution is obtained and promotion is obtained.
2. *Growth:* the period during which the product is accepted by consumers and the trade. Initial distribution is expanded, promotion is increased, repeat orders from initial buyers are obtained, and word-ofmouth advertising leads to more and more new users.
3. *Maturity:* the period during which competition becomes serious. Towards the end of this period, competitors' products cut deeply into the company's market position.
4. *Decline:* the product becomes obsolete and its competitive disadvantage result in decline in sales and, eventually, deletion.



It should be noted that the predictive capabilities of the product lifecycle are dependent upon several factors, both controllable and uncontrollable, and that no two companies may follow the same exact pattern or produce the same results. For example, differences in the competitive situation during each of these stages may dictate different marketing approaches. Some argue that the competitive situation is the single most important factor influencing the duration of height of a product lifecycle curve.

Product positioning

- Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages.
- It can also be defined as how the product is designed to be perceived in the market place by the target market against those of the main competitors i.e. it is basically how consumers understand the product offering and how it differs from those offered by competitors
- For example, in the motor industry brands like BMW, VW, Mercedes Benz and have been positioned as luxurious brands.
- Successful positioning enables the business to gain a competitive edge

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Target market

- A target market is the set of customers sharing common needs, wants & expectations that a business tries to sell to.
- Selecting the target market is one part of the marketing strategy process, and should

normally follow an analysis of the available market segment

Marketing audit

- A **marketing audit** is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities, with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.
- A marketing audit is often used by a company reviewing its business strategy. A marketing audit can inform management with an invaluable customer and market insight, vital to help them set realistic business objectives.

Internal factors

It is an analysis of internal factors and their impact on the effectiveness of the overall marketing strategy. It looks at factors such as the availability of suitable personnel resources, financial resources, machinery, availability of time to implement the strategy and quality of materials used in the production process. It seeks to assess how each factor is contributing to the attainment of marketing objectives by applying the SWOT analysis.

The external marketing environment

- The external marketing audit helps the organisation to have an image about the market size, market structure, consumers, suppliers, distributors, competitors, economic, political situation.
- For marketing plan to be market oriented, the business needs to know better both our competitors and its customers.
- It seeks to examine whether the company is pursuing its best opportunities with respect to markets, products, and channels.

VALUE ANALYSIS

- It seeks to examine all facets of a product to identify the relevance of each function, then determine how it can perform at the highest level while spending no more than is necessary to make that happen.
- It seeks to bring forward the relationship between cost, efficiency, and the value of the function.
- Value analysis objectives are:
  - ➢ Keep the product's uniqueness,
  - ➢ Keep perceived value high, ➢ Keep production costs down.

Value analysis' approach focuses on new options for optimized solutions, new concepts and functions. These aspects are always considered in terms of how they fit into manufacturing costs' ratio to perceived product value, since manufacturers strive to keep the price points of their products as fair as possible. Ultimately, models need to be categorized according to where they fit in a product range, which makes it easier to market each individual model.

The Boston matrix

A portfolio of products can be analysed using the **Boston Group Consulting Matrix**. This categorises the products into one of four different areas, based on:

- **Market share** – does the product being sold have a low or high market share?
- **Market growth** – are the numbers of potential customers in the market growing or not

How the Boston Matrix is Constructed

The Boston Matrix makes a series of key assumptions:

- Market share can be gained by investment in marketing
- Market share gains will always generate cash surpluses
- Cash surpluses will be generated when the product is in the maturity stage of the life cycle
- The best opportunity to build a dominant market position is during the growth phase

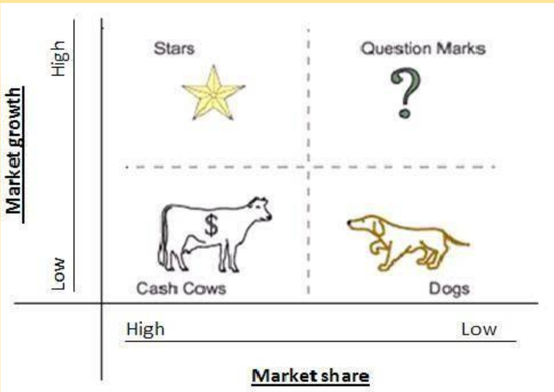
How does the Boston Matrix work?

The four categories can be described as follows:

- **Stars** are **high growth products** competing in markets where they are strong compared with the competition. Often Stars need heavy investment to sustain growth. Eventually growth will slow and, assuming they keep their market share, Stars will become Cash Cows

- **Cash cows** are **low-growth products** with a high market share. These are mature, successful products with relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows that the company needs for its Stars
- **Question marks** are products with low market share operating in high growth markets. This suggests that they have potential, but may need substantial investment to grow market share at the expense of larger competitors. Management have to think hard about "Question Marks" - which ones should they invest in? Which ones should they allow to fail or shrink?
- The term **"dogs"** refers to products that have a low market share in unattractive, low-growth markets. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in. Dogs are usually sold or closed.

Ideally a business would prefer products in all categories (apart from Dogs!) to give it a balanced portfolio of products.



The main values of using the Boston Matrix include:

- A useful tool for analysing product portfolio decisions
- But it is only a snapshot of the current position
- Has little or no predictive value
- Does not take account of environmental factors
- There are flaws which flow from the assumptions on which the matrix is based

However, the model can be criticised in several ways:

- Market growth is an inadequate measure of a market's attractiveness
- Market share is an adequate measure of a products ability to generate cash
- The focus on market share and market growth ignores issues such as developing a sustainable competitive advantages
- The product life cycle varies

Star High market growth High market share Cash neutral Hold	**Problem child** High market growth Low market share Cash absorbing Build
Cash cow Low market growth High market share Cash generating Harvest or milk	**Dog** Low market growth Low market share Cash neutral Divest

Ansoff matrix

The Ansoff Growth matrix is another marketing planning tool that helps a business determine its product and market growth strategy.

	Existing product	New product
Existing market	**Market penetration** Increase sales to the existing market. Penetrate more deeply into the existing market	**Product development** New product developed for existing markets.
New market	**Market development** Existing products sold to new markets.	**Diversification** New products sold in new markets.

Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies which set the direction for the business strategy. These are described below:

Market penetration

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets.

Market penetration seeks t**o achieve four main objectives:**

- Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resource**s dedicated to personal selling**
- Secure dominance of growth markets
- Restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors
- Increase usage by existing customers – for example by introducing loyalty schemes

A market penetration marketing strategy is very much about "business as usual". The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research.

Market development

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.

There are many possible ways of approaching this strategy, including:

- New geographical markets; for example exporting the product to a new country
- New product dimensions or packaging: for example
- New distribution channels (e.g. moving from selling via retail to selling using ecommerce and mail order)
- Different pricing policies to attract different customers or create new market segments

Market development is a more risky strategy than market penetration because of the targeting of new markets.

Product development

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

A strategy of product development is particularly suitable for a business where the product needs to be differentiated in order to remain competitive. A successful product development strategy places the marketing emphasis on:

- Research & development and innovation
- Detailed insights into customer needs (and how they change)
- Being first to market

Diversification

Diversification is the name given to the growth strategy where a business markets new products in new markets.

This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks. However, for the right balance between risk and reward, a marketing strategy of diversification can be highly rewarding.

<u>PRICE</u>

- Price is the amount charged for a product or service.
- It is the second most important element in the marketing mix.
- Fixing the price of the product requires the consideration of many factors like demand

for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc.

- In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

PRICING AND FACTORSAFFECTING PRICING DECISIONS

As stated earlier price is the consideration in terms of money paid by consumers for the bundle of benefits he/she derives by using the product/ service. In simple terms, it is the exchange value of goods and services in terms of money. Pricing (determination of price to be charged) is another important element of marketing mix and it plays a crucial role in the success of a product in the market. If the price fixed is high, it is likely to have an adverse effect on the sales volume. If, on the other hand, it is too low, it will adversely affect the profitability. Hence, it has to be fixed after taking various aspects into consideration. The factors usually taken into account while determining the price of a product can be broadly described as follows: (a) Cost: No business can survive unless it covers its cost of production and distribution. In large number of products, the retail prices are determined by adding a reasonable profit margin to the cost. Higher the cost, higher is likely to be the price, lower the cost lower the price. (b) Demand: Demand also affects the price in a big way. When there is limited supply of a product and the demand is high, people buy even if high prices are charged by the producer. But how high the price would be is dependent upon prospective buyers' capacity and willingness to pay and their preference for the product. In this context, price elasticity, i.e. responsiveness of demand to changes in price should also be kept in view. Business Studies 109 Notes MODULE-5 Marketing (c) Competition: The price charged by the competitor for similar product is an important determinant of price. A marketer would not like to charge a price higher than the competitor for fear of losing customers. Also, he may avoid charging a price lower than the competitor. Because it may result in price war which we have recently seen in the case of soft drinks, washing powder, mobile phone etc. (d) Marketing Objectives: A firm may have different marketing objectives such as maximisation of profit, maximisation of sales, bigger market share, survival in the market and so on. The prices have to be determined accordingly. For example, if the objective is to maximise sales or have a bigger market share, a low price will be fixed. Recently one brand of washing powder slashed its prices to half, to grab a bigger share of the market. (e) Government Regulation: Prices of some essential products are regulated by the government under the Essential Commodities Act. For example, prior to liberalisation of the economy, cement and steel prices were decided by the government. Hence, it is essential that the existing statutory limits, if any, are also kept in view while determining the prices of products by the producers.

PRICING STRATEGIES

1. Competitor-based pricing

With competition pricing a firm will base what they charge on what other firms are charging. This is used when there is lots of choice but not much product differentiation, like petrol. The competitor prices are set as a benchmark and management can set the price above or below the benchmark depending on the business objectives and the given circumstances

Advantages

- An advantage of using competitive pricing is that selling prices should be line with rivals, so price should not be a competitive disadvantage.
- It avoids price wars which can have negative effects to all the firms in the market

- The strategy is easier to administer
- The product is always competitively priced

Disadvantages

- The main problem is that the business needs some other way to attract customers. It has to use non-price methods to compete – e.g. providing distinct customer service or better availability.
- The business cannot have any significant influence on the price of its product.

Penetration pricing

With penetration pricing a firm charges a very low price for a product in order to attract lots of customers. While this low price is used, firms will usually make little or no profit. Once the product has gained customer loyalty the producer will start charging higher prices to increase their profit. This pricing strategy is often done when introducing a new product in a market, often when existing products have brand loyalty, in order to grab a large market share quickly.

Advantages

- Will attract customers to the product and make them want to try it.
- Good for increasing market share quickly.

Disadvantages

- Does not help pay back research and development costs.
- Revenue is lost while the product is selling at a lower price.
- Not good for products with short product life cycles (e.g. fashion clothing).

Skimming pricing

Skimming is the opposite of penetration pricing. Firms charge a high price to begin with for an exclusive product. This helps to make the product desirable to consumers with large incomes. When the product has become established the firm will lower the price to help it become a mass market product. This pricing strategy is often done with products based on new technology that are only just appearing the market.

Advantages

High prices can give a product a good image, and give customers the impression that it is very high quality.

- Will give firms high profits while the price is high, helping to pay back research and development costs.

Disadvantages

- Competitors may bring out a lower-priced product, taking away your market.
- Some sales may be lost because customers are not willing to pay the higher price.
- Can put some potential customers off because of the high price.

Price discrimination

Price discrimination happens when a firm charges a different price to different groups of consumers for an identical good or service, for reasons not associated with costs of supply. There are 3 types of price discrimination

1. 1st degree price discrimination were each customer is charged the highest price he/she is willing to pay. This strategy mainly applies to informal traders e.g. flea markets
2. 2rd degree price discrimination involves charging different prices based on the quantities purchased e.g. bulky buying discounts
3. 3nd degree, which involves charging different prices to different markets in line with the sensitivity of demand to price changes e.g. in some areas pupils in school uniforms pay half the normal fare

Advantages

- It increases the firms revenue which in turn increases profits
- Some consumers will benefit from low prices e.g. students

Disadvantages

- This strategy is not fair to the consumers
- The strategy only applies in limited scenarios e.g. when the market cannot be clearly segmented the strategy becomes inapplicable

Distribution channels (Place)

Marketing has to ensure the availability of his goods to the consumers at convenient points for their purchase. This can be done directly or, through a chain of middlemen like distributors, wholesalers and retailers. The path or route adopted by the business for the purpose is known as channel of distribution. A channel of distribution thus, refers to the pathway used by the manufacturer for transfer of the ownership of goods and its physical transfer to the consumers and the user/buyers. It includes both the producer and the end user and also the middlemen/agents engaged in the process of transfer of title of goods. Primarily a channel of distribution performs the following functions:

- It helps in establishing a regular contact with the customers and provides them the necessary information relating to the goods.
- It provides the facility for inspection of goods by the consumers at convenient points to make their choice.
- It facilitates the transfer of ownership as well as the delivery of goods.
- It helps in financing by giving credit facility.
- It assists the provision of after sales services, if necessary.
- It assumes all risks connected with the carrying out the distribution function.

TYPES OF CHANNELS OF DISTRIBUTION
The producers usually use services of one or more middlemen to supply their goods to the consumers. But sometimes, they do have direct contact with the customers with no middlemen in between them. This is true more for industrial goods where the customers are highly knowledgeable and their individual purchases are large. The various channels used for distribution of consumer goods can be described as follows:

Zero stage channel of distribution:

Marketing Zero stage distribution channel exists where there is direct sale of goods by the producer to the consumer. This direct contact with the consumer can be made through door-to door salesmen, own retail outlets or even through direct mail. Also in case of perishable products and certain technical household products, door-to-door sale is an easier way of convincing consumer to make a purchase.

One stage channel of distribution

In this case, there is one middleman i.e., the retailer. The manufacturers sell their goods to retailers who in turn sell it to the consumers. This type of distribution channel is preferred by manufacturers of consumer durables like refrigerator, air conditioner, washing machine, etc. where individual purchase involves large amount. It is also used for distribution of perishable products.

Two stage channel of distribution

This is the most commonly used channel of distribution for the sale of consumer goods. In this case, there are two middlemen used, namely, wholesaler and retailer. This is applicable to products where markets are spread over a large area, value of individual purchase is small and the frequency of purchase is high.

FACTORS AFFECTING THE CHOICE OF DISTRIBUTION CHANNEL

Choice of an appropriate distribution channel is very important as the pricing as well as promotion strategy are dependent upon the distribution channel selected. Not only that, the route which the product follows in its journey from the manufacturer to the consumer also involves certain costs. This in turn, affects not only the price of the product but also the profits. Choice of inappropriate channels of distribution may result in lesser profits for the manufacturer and higher price from the consumer. Hence, the manufacturer has to be careful while finalising the channel of distribution to be used. He should pay attention to the following factors while making his choice.

- **Nature of Market**: There are many aspects of market which determine the choice of channel of distribution. Say for example, where the number of buyers is limited, they are concentrated at few locations and their individual purchases are large as is the case with industrial buyers, direct sale may be the most preferred choice. But in case where number of buyers is large with small individual purchase and they are scattered, then need may arise for use of middlemen.

- **Nature of Product**: Nature of the product considerably affects the choice of channel of distribution. In case the product is of technical nature involving a good amount of pre-sale and after sale services, the sale is generally done through retailers without involving the wholesalers. But in most of the consumer goods having small value, bought frequently in small quantities, a long channel involving agents, wholesalers and retailers is used as the goods need to be stored at convenient locations. Items like toiletries, groceries, etc. fall in this category. As against this in case of items like industrial machinery, having large value and involving specialised technical service and long negotiation period, direct sale is preferred.
- **Financial status of the business**: A firm having enough financial resources can afford to its own a distribution force and retail outlet, both. But most business firms prefer not to create their own distribution channel and concentrate on manufacturing. The firms who wish to control the distribution network prefer a shorter channel.
- **Middlemen Consideration**: If right kind of middlemen having the necessary experience, contacts, financial strength and integrity are available, their use is preferred as they can ensure success of newly introduced products. Cost factors also have to be kept in view as all middlemen add their own margin of profit to the price of the products. But from experience it is learnt that where the volume of sales are adequate, the use of middlemen is often found economical and less cumbersome as against direct sale
- **Competitors' distribution channel**: the business needs to maintain a competitive advantage over its competitors. Therefore, the distribution channel adopted by the competitors will have an impact on the market share of the organisation. The business must therefore select a channel that is either similar or more efficient to that applied by its competitors.

The present distribution channel: the firm has to regularly consider the appropriateness of the present channel to identify its strengths and weaknesses in light of environmental changes. This enables the business to change its distribution strategy to best meet its marketing objectives

PROMOTION

Promotion refers to the process of informing and persuading the consumers to buy certain product. By using this process, the marketers convey persuasive message and information to its potential customers. The main objective of promotion is to seek buyers' attention towards the product with a view to:

- arouse the buyer's interest in the product
- inform the buyer about its availability
- inform customers as to how is it different from others.

It is thus a persuasive communication and also serves as a reminder. A firm uses different tools for its promotional activities which are as follows:

- Advertising
- Publicity
- Personal selling
- Sales promotion

These are also termed as four elements of a promotion mix.

Advertising

Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It is a paid form of non-personal communication through different media about a product, idea, a service or an organisation by an identified sponsor. It can be done through print media like newspaper, magazines, billboards, electronic media like radio, television, etc. It is a very flexible and comparatively low cost tool of promotion.

Publicity

This is a non-paid process of generating wide range of communication to contribute a favourable attitude towards the product and the organisation. You may have seen articles in newspapers about an organisation, its products and policies. The other tools of publicity are press conference, publication and news in the electronic media etc. It is published or broadcasted without charging any money from the firm. Marketers often spend a lot of time and effort in getting news items placed in the media for creation of a favourable image of the company and its products.

Personal selling

It is a direct presentation of the product to the consumers or prospective buyers. It refers to the use of salespersons to persuade the buyers to act favourably and buy the product. It is most effective promotional tool in case of industrial goods.

Sales promotion

This refers to short-term and temporary incentives to purchase or induce trials of new goods. The tools include contests, games, gifts, trade shows, discounts, etc. Sales promotional activities are often carried out at retail levels.

Packaging

Packaging is the wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean. Packaging plays an important role in marketing i.e.

- Protecting the product from damage while in transit or on the shelf
- The packaging also serves to attract the consumers
- provides information to consumers e.g. the ingredients and directions for use
- it differentiates the product from that offered by competitors
- enables consumers to make informed decisions e.g. nutritional information and possible side effects of consuming the product can

Packaging comes at a cost, therefore it is important to ensure that the costs of packaging do not outweigh the benefits. Packaging cost has the effect of putting upward pressure on prices or to reduce profits which contrasts with the business objectives.

Branding

A brand is a product with unique character, for instance in design or image. It is consistent and well recognised. Common brands in Zimbabwe are Pro brands, Heinz and Crystal.

Advantages

- Inspires customer **loyalty** leading to repeat sales and word-of mouth recommendation.
- The brand owner can usually charge higher prices, especially if the brand is the market leader.
- Retailers prefer to stock top selling brands. With limited shelf space it is more likely the top brands will be on the shelf than less well-known brands.
- It differentiates the product from that offered by the competitor.
- Reduced promotional costs when launching new products

Disadvantage

- In the event of negative public city the whole product portfolio carrying the brand name can be put into disrepute
- It is difficult for businesses to maintain a constant brand identity because of changes in consumer tastes and preferences
- Branding involves costs to the business. However, the costs of branding are justifiable after considering the benefits.

To sum up, candidates are expected to gain an understanding of marketing in an integrated context within the organisation and the wider environment. The ability to consider the marketing mix of businesses in given situations and given budgets and to evaluate these in the light of business objectives will also be required.

This requires you to be familiar with the applicable mix to different situations and different products at different levels on the PLC

PRODUCTION

Stages of production

Production within an economy can be divided into three main stages: primary, secondary and tertiary.

Primary Production

- Also known as the extractive industries
- Primary production involves the extraction of raw materials (e.g. farming, forestry, fishing, and mining).

- There is little value added in primary production. The aim is usually to produce the highest quantity at lowest cost to a satisfactory standard.

Secondary Production

- Also known as manufacturing industries
- Secondary production involves transforming raw materials into goods.
- There are two main kinds of goods consumer goods and industrial goods.
- In the secondary production sector, value is "added" to the raw material inputs e.g. foodstuffs are transformed into ready meals for sale in supermarkets; metals, fabrics, and plastics are transformed into motor vehicles.

Tertiary Production

- Also known as the service industries
- Tertiary production is associated with the provision of services (an intangible product).
- There are many tertiary production markets which include hotels, education, Accountants, tourism and banks

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Production process

- The way that businesses create products and services is known as the production process.
- There are three main parts to the production process which are the inputs, process and output.

  A firm must purchase all the necessary inputs and then transform them into the product (outputs) that it wishes to sell.

Adding Value

- The production process adds value to the inputs
- Added value is equivalent to the increase in value that a business creates by undertaking the production process.
- Adding value = the difference between the price of the finished product/service and the cost of the inputs involved in making it
- For example a television set comes off the production line with a value (price) that is more than the cost of the sum of the parts. Value has been added during the production process.
- Businesses can add value by:
  - Building a brand – a reputation for quality, value etc that customers are prepared to pay for. Nike trainers sell for much more than Hi-tec, even though the production costs per pair are probably pretty similar
  - Delivering excellent service – high quality, attentive personal service can make the difference between achieving a high price or a medium one
  - Product features and benefits – for example, additional functionality in different versions of software can enable a software seller to charge higher prices; different models of motor vehicles are designed to achieve the same effect.
  - Offering convenience – customers will often pay a little more for a product that they can have straightaway, or which saves them time.

Productivity

- It measures the relationship between inputs into the production process and the resultant outputs.
- The most commonly used measure is labour productivity, which is measured by output per worker. For example, assume a sofa manufacturer makes 100 sofas a month and employs 25 workers. The labour productivity is 4 sofas per person per month.
- There are several other measures of productivity which include output per hour / day / week or output per machine

Efficiency

- Efficiency is a measure of how well the production or transformation process is performing.
- Efficiency in production is generally assessed by reduction in wastage e.g. reduced number of scraped items

Ways to improve productivity and efficiency The generation and application of technological and organisational knowledge (innovation) are the main drivers of firm-level productivity growth. These determinants are broader than technology in an engineering sense. The choice of production technology and how production is organised, which are management decisions, play a crucial role in productivity performance. Firms can improve their productive efficiency in the following ways:

- Improvements in technical efficiency — increases in output can be achieved, at a given level of input, from more efficient use of the existing technologies.
- Technological progress and organisational change — as firms adopt technologies or organisational structures that are new to the firm, or develop and apply new technologies, they can expand output by more than any additional inputs that might be required.
- Economies of scale — as the size of the firm expands, its unit cost of production can fall as it becomes financially advantageous to adopt existing technologies.
- Training the workforce gives them skills necessary for them to execute their assigned tasks efficiently
- Improved motivation ensures unit of direction and workers seek responsibility, this improves efficiency and motivation
- Use of better quality raw materials can reduce the amount of time wasted on rejected or defective products. A business should ensure they find the supplier who can supply the best quality resources, but at a competitive price and also with reliable delivery.

What shall be produced?

A firm has to make the following considerations before it decides on which products it has to produce in a specified period (product portfolio planning)

- *Market research* findings provide information about customer needs and the production department must produce a product that satisfies those customer needs
- *Available resources:* economic resources are always limited in supply therefore the business has to produced within its means, e.g. a business may shelve a plan to develop a new product due to unavailability of funds.
- *Opportunity cost:* management has to choose an option that best suits the organisational objectives e.g. an option that maximises profits. This implies opportunities to produce other products have to be sacrificed, these are called opportunity cost.

Costs of production

- These refer to the amount of economic resources in monetary terms consumed in the manufacturing a good or provision of a service.
- Examples of costs of production are labour, raw materials, consumable manufacturing supplies and general overheads

Classification of costs

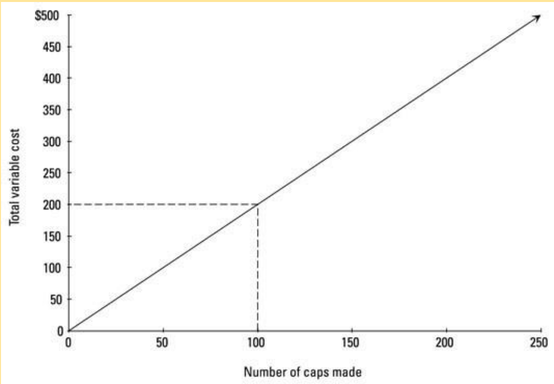
Costs can be classified by their behaviour or by function

Economist view (Variable & Fixed)

This classification of costs is based on how costs behave as the activity level of an organisation changes. Cost behaviour refers to how costs behave to a change in the level of activity.

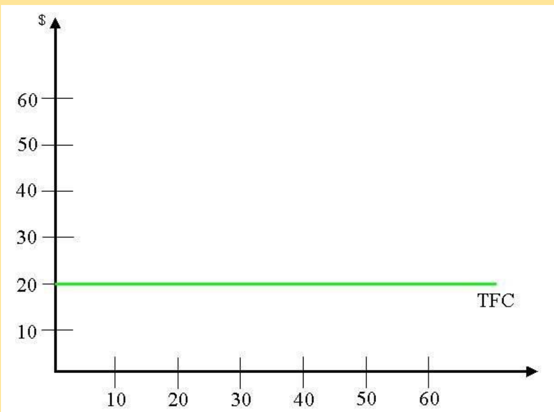
Variable costs:

- These costs are directly proportional to the level of activity.
- If the number of units produced doubles, then variable production costs will double also. An example would be the cost of material used to produce units.
- On a graph, variable costs would look like:



Fixed costs:

- These costs are constant over a wide range of activity
- An example would be the factory rent. It does no matter how many units are made, the rent is fixed.
- On a graph, fixed costs would appear as: n



Marginal cost

- The word marginal means additional or extra
- The marginal cost of producing a product is the cost of producing that additional unit of output
- This cost is represented by the variable cost per unit as no additional fixed costs are incurred in the production of an additional unit

PRODUCER'S VIEW OF COSTS

Producers classify costs into direct costs and indirect costs

Direct Cost

- A direct cost is a cost that can be clearly associated with specific activities or products.
- There are very few direct costs, since there is usually not a clear association between a cost and an activity or product.
- Examples of direct costs include direct materials, productive labour and commissions

Indirect costs

- Costs that cannot be directly associated with specific activities or products are called indirect costs.
- Examples of these costs are rent expense and machinery maintenance

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Factors influencing the location of a business

There are a number of factors that management has to consider when deciding on the location of the business. These factors include

- Proximity to the market, a business has to locate closer to the market in order to cut on delivery costs. This factor becomes more relevant if the business id dealing with perishable products.
- Proximity to raw materials source, businesses especially those dealing with bulky inputs prefer to locate closer ti material sources to cut costs e.g. Hullets sugar is located in triangle where sugar cane is grown.

- Infrastructure such as good communication, road or railway network bring businesses closer to the location as they positively contribute to the efficiency of organisational operations
- Government can offer incentives for firms to locate in some areas e.g. tax holidays on firms located at growth points. Firms have to consider such incentives when deciding on location
- Availability of labour, firms prefer to locate in areas where there is adequate supply of skilled labour.
- Costs such as rentals, power and water have to be considered. Businesses prefer to locate in areas where costs are relatively lower
- Availability of a reliable water and water supply has to be considered when deciding on the location of a firm

Relocation of businesses

Relocation occurs whenever the business decides to leave its present location for another. In this case there are push factors which are those factors making the present location unfavourable e.g. declining market, depleted raw material, high rentals and poor infrastructure. The business relocates to areas where favourable conditions outlined above exist

ORGANISING PRODUCTION

Work study

It is a process concerned with the analysis of the work methods and the equipment used in performing a job, the design of an optimum work method and the standardisation of proposed work methods. The main purpose of work study is to determine the most effective method of accomplishing the necessary operation. Work study is concerned about searching for better method to perform a task. If management utilises this tool it results in improved productivity The following are objectives of a work study program

- To analyse the present method of performing a task in order to develop a better way of performing the task
- To measure the work content of the job by measuring the time required to perform a task by a qualified worker in order to establish a standard time
- To increase productivity by ensuring the best possible use of human, machine and material resources
- Improve operational efficiency

Advantages of work study

- Increased productivity and operational efficiency
- Motivate employees as it brings in better job satisfaction and improves the working conditions
- Reduced manufacturing costs
- Improved work flow
- Provides a standard of performance to measure labour efficiency

VALUE ANALYSIS AND THE PRODUCTION PROCESS

The production process is a continuous process which follows the following main stages

i. **Research,** the business seeks to find out consumer needs and establish whether or not the current product offered by the business is satisfying these needs.
ii. **Product design,** the business uses the research findings to design a product that serves as a solution to the customer needs

Value analysis

Value analysis is a process of systematic review that is applied to existing product designs in order to compare the function of the product required by a customer to meet their requirements at the lowest cost consistent with the specified performance and reliability needed. It involves analysing all the features on the product to see if the value they are adding is commensurate to the increase in costs. All features on the product come at a cost, therefore value analysis seeks to remove those features that are not adding value to the product, while adding new features that add more to value than they do to costs.

Value analysis when incorporated in all the production processes will yield the following benefits

- It provides better value to a product, thus creating customer loyalty

- It improves the business's competitive position.
- Improves efficiency as the business tries to cut unnecessary cost

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Labour Intensive vs Capital Intensive

Capital intensive and labour intensive refer to types of production methods used in the production of goods and services. Whether an industry or firm is capital or labour intensive depends on the ratio of capital to labour required in the production of goods and services.

What is Capital Intensive?

- Capital intensive refers to the production that requires higher capital investment such as financial resources, sophisticated machinery, more automated machines, the latest equipment, etc.
- Capital intensive industries pose higher barriers to entry as they require more investment in equipment and machinery to produce goods and services.
- An industry, firm, or business is considered to be capital intensive taking into consideration the amount of capital that is required in comparison to the amount of labour required.
- Examples of capital intensive industries include the telecommunications industry and the airline industry.

Merits

- Acts as a barrier to potential entrants, thus protecting the business competition
- The use of machinery improves efficiency in operations
- Machinery has lower day to day operating costs than labour
- Machinery is more consistent in its operations than labour

Demerits

- Machinery is expensive to acquire
- Higher risk of obsolesce of equipment

What is Labour Intensive?

- Labour intensive refers to the production that requires a higher labour input to carry out production activities in comparison to the amount of capital required.
- Examples of labour intensive industries include agriculture, restaurants, hotel industry, and other industries that require much manpower to produce goods and services.
- Labour intensive industries depend mostly on the workers and employees of their firms, and require higher investment and time to train and coach workers to produce goods and services according to specified standards.
- Labour intensive production also requires more time to complete one unit of production as production, generally, occurs on a small scale.

Capital Intensive vs Labour Intensive

Capital intensive production requires more machinery, equipment and sophisticated technological production systems in the production process. Capital intensive production requires a higher level of investment and larger amount of funds and financial resources. A capital intensive production process is mostly automated and able to generate a large output of goods and services. Since capital intensive production relies largely on machinery and equipment, such industries require long term investment, with a high cost involved in maintaining and depreciating equipment. In such a capital intensive production process, it could be very costly to increase output levels as this would require higher investment in such machinery and equipment.

Labour intensive is where most of the production is carried by employees. It means that the levels of output would be at a much smaller scale than a capital intensive industry. The costs involved in a labour intensive production unit would be the costs of training and educating employees. However in comparison to capital intensive, in labour intensive production, increasing the volume of output is easier as it does not require a large investment. Instead, hiring more workers, asking workers to work extra hours and hiring temporary staff can increase production in the short term.

Production methods

Production is about creating **goods and services**. Managers have to decide on the most efficient way of organising production for their particular product. There are three main types of production to choose from which are Job, batch and flow production

Job production

- In Job production items are made **individually** and each item is finished before the next one is started.
- It involves the production of a single, unique, product designed according to customer specifications i.e. goods are produced to order.
- The method is usually labour intensive as the products are not standardised. I usually require highly skilled labour.
- It is applicable mainly in construction projects, handmade crafts like furniture and art works.

Advantages

- Unique, high quality products are produced
- Workers are often motivated as they take pride in their work

Disadvantages

- The high labour costs
- Difficult for the business to achieve economies of scale

Batch production

- Batch production makes products in separate groups and the products in each batch go through the whole process together.
- The production process involves a number of distinct stages and the defining feature of batch production is that **every unit in the batch must go through an individual production stage before the batch as a whole moves on to the next stage**.
- Batch production allows firms to use division of labour in the production process and it enables economies of scale if the batch is large enough.
- It is usually employed in industries where demand is for batches of identical products e.g. raspberry & cream soda.
- It also allows each individual batch to be specifically matched to the demand, and the design and composition of batches can easily be altered e.g. from chicken flavour to chutney.

Disadvantages

- The drawbacks are that batch production tends to have high levels of work-inprogress stocks at each stage of the production process.
- The work may well be boring and demotivating for workers since it is repetitive in nature.
- If batches are small, then unit costs are likely to remain high.
- There is often a need to clean and adjust machinery after each batch has passed through.

Flow production

- This method is used when **individual products move from stage to stage of the production process as soon as they are ready, without having to wait for any other products**.
- Flow production systems are capable of producing large quantities of output in a relatively short time and so it suits industries where demand for a product is high and consistent.
- It also suits the production of large numbers of a standardised item that only requires minimal alterations.
- This is often why it is often referred to as mass production.
- Flow production usually takes place on a production line - hence the use of the term production line.

Advantages

- Labour costs tend to be relatively low, because much of the process is mechanised and there is little physical handling of products.

- The constant output should make the planning of inputs relatively simple and this can lead to the minimisation of input stocks through the use of just-in-time (JIT) stock control
- Quality tends to be consistent and high and it is easy to check the quality of products at various points throughout the process.

Disadvantage

- The high initial set-up cost. By definition, capital intensive, high technology production lines are going to cost a great deal of money.
- The work involved tends to be boring, demotivating and repetitive.
- The production is affected by a breakdown at any point in the production line.

Kaizen – Continuous improvement

- Kaizen (or 'continuous improvement') is an approach of **constantly introducing small incremental changes** in a business in order to improve quality and/or efficiency.
- This approach assumes that employees are the best people to identify room for improvement, since they see the processes in action all the time. A firm that uses this approach therefore has to have a culture that encourages and rewards employees for their contribution to the process.
- Kaizen can operate at the level of an individual, or through Kaizen Groups or Quality Circles which are groups specifically brought together to identify potential improvements.
- This approach would also be compatible with Team working, as improvements could form an important part of the team's aims.

The key features of Kaizen include:

Improvements are based on many, small changes rather than the radical changes that might arise from Research and Development

- As the ideas come from the workers themselves, they are less likely to be radically different, and therefore easier to implement
- Small improvements are less likely to require major capital investment than major process changes
- The ideas come from the talents of the existing workforce, as opposed to using R&D, consultants or equipment – any of which could be very expensive
- All employees should continually be seeking ways to improve their own performance
- It helps encourage workers to take ownership for their work, and can help reinforce team working, thereby improving worker motivation

As Kaizen is characterised by many, small improvements over time, it contrasts with the major leaps seen in industry when radical new technology or production methods have been introduced. Over the years, the sheer volume of Kaizen improvements can lead to major advances for a firm, but managers cannot afford to overlook the need for radical change from time to time.

To sum up, for Kaizen to be effective there has to be a culture of trust between staff and managers, supported by a democratic structure and a Theory Y view of employees. Good two-way communications and a de-layered organisation would also support this approach. Nevertheless, some workers might see the demands as an extra burden rather than an opportunity and it can take time to embed Kaizen successfully into an organisation's culture.

Capacity utilisation

Capacity utilisation measures the extent to which a business is using its production potential.

Capacity utilisation can be defined as - **the percentage of total capacity that is actually being achieved in a given period**

Capacity utilisation which is traditionally expressed as a percentage) is calculated using this formula:

$$\frac{\quad}{\quad} \times 100$$

Capacity utilisation is an important concept because:

- It is often used as a measure of productive efficiency
- Average production costs tend to fall as output rises, so higher capacity utilisation can reduce unit costs, making a business more competitive
- So firms usually aim to produce as close to full capacity (100% utilisation) as possible

It is important to remember that increasing capacity often results in higher fixed costs. A business should aim to make the most productive use it can of its existing capacity.

The investment in production capacity is often significant. Think about how much it costs to set up a factory; the production line with all its machinery and technology.

Ways to increase capacity utilisation

1. Subcontracting or Outsourcing The business takes orders and produce for other businesses. Subcontracting will increase capacity utilisation as the business is now producing not just for itself but for other businesses as well 2. Reduce capacity

   But take care that the low utilisation is not temporary – big mistake to cut capacity and then later on have to increase again

3. Increase demand

   Adjust the marketing mix to stimulate demand, this increased demand must be satisfied by increased capacity utilisation

Benefits of high capacity utilisation

- High utilisation means fixed costs are spread over greater output. Since fixed costs do not change as output changes, fixed costs per unit are lower with higher utilisation
- This means a firm can make higher profits per unit, or lower price to gain an increase in demand
- Particularly important when fixed costs are high (capital intensive)

The main disadvantage of high capacity utilisation is that the business may fail to meet any unexpected increase in demand.

PRODUCT COSTING

Cost information is used for a number of purposes which include

1. Determination of selling price: business organisations aim at earning profit. Total cost of production constitutes the basis on which selling price is fixed by adding a margin of profit. Although, other factors are taken into consideration before fixing price such as market conditions, the area of distribution, volume of sales, etc. But cost plays the dominating role in price fixation.
2. Calculation of profit: profit is the difference between income earned and the cost of earning that income. The cost information is therefore in the calculation of profit made by the business in a given period.
3. Resource allocation: cost information is used as a basis to allocate resources efficiently. Management uses techniques such as budgeting, to determine the quantities that can be efficiently produced given the available resources. In the event of shortages resources can be allocated towards the production of low cost high sales value products
4. Rewarding factors of production: factors of production such as labour and capital need to be rewarded for their contribution to the production process. The reward increases the cost to the business therefore the cost information has to be considered when considering any bonus schemes to ensure such programmes do not negatively affect profitability.
5. To provide a basis for operating policy: Cost data to a great extent helps in formulating the policies of a business and in decision-making. As every alternative decision involve investment of capital outlay, costs play an important role in decision making. Therefore availability of cost data is a must for all levels of management. Some of the decisions which are based on cost include make or buy decision, manufacturing by

mechanisation or automation and whether to close or continue operation in spite of losses.

6. Controlling cost: Cost information helps in attaining aim of controlling cost by using various techniques such as Budgetary Control, Standard costing, and inventory control. Each item of cost e.g. material and labour is budgeted at the beginning of the period and actual expenses incurred are compared with the budget. This increases the efficiency of the enterprise.

Product costing

Product costing is a process concerned with ascertaining the amount of economic resources consumed in the production of a good or provision of a service. Management needs accurate cost information as it is an important input in the decision making process. Cost information is used for pricing decision to ensure that price covers the relevant costs. The cost information is also relevant for control purposes i.e. to try to minimise costs to ensure profitability. There are two main costing techniques used in ascertaining of product costs which are absorption costing and marginal costing.

Marginal and absorption costing systems These two costing systems are often used in cost accounting, but for different purposes:

- marginal costing – helps with short-term decision-making
- absorption costing – is used to calculate inventory valuations and profit calculations in financial statements

The use of each system is dependent on the information needs of the business or organisation. These costing systems use the same costs, but they are treated differently according to their behaviour.

Absorption/ Total costing

- This costing technique includes into the product cost all the costs involved in the manufacture of a product.
- This technique classifies cost into direct costs and indirect costs in line with the producers classification of costs
- The total of the direct costs incurred in the production of a product is called the ***prime cost of production***
- Other costs incurred in supporting the production process such as repairs to machinery, indirect wages and rentals are called ***factory overheads***
- The prime cost of production can be determined with ease as the costs can be traced to the specific cost unit (product).
- Overheads need to be included into the cost of the product in order to determine the total cost, this process is called ***absorption of overheads***

Marginal costing

- Marginal cost is the cost of producing one extra unit of output
- To help with short-term decision-making, costs are classified by their behaviour as either variable costs or fixed costs.
- Such a classification of costs is used in marginal costing to work out how much it costs to produce each extra unit of output.
- Marginal cost is often – but not always – the total of the variable costs of producing a unit of output.
- marginal costing is not concerned with *fixed period costs* (such as the rent of a factory); instead it is concerned with *variable product costs* – direct materials, direct labour, direct expenses, and variable production overheads – which increase as output increases.
- For most decision-making, the marginal cost of a unit of output is, therefore, the variable cost of producing one more unit.
- Knowing the marginal cost of a unit of output enables the managers of a business to focus on the contribution provided by each unit. The contribution is the sales revenue after marginal/variable product costs have been paid.
- The contribution is obtained by the formula: *selling price less variable cost = contribution*
- Contribution can be calculated on a per unit basis, or for a batch of output (eg 1,000 units), or for a whole business.

- It follows that the difference between the sales revenue and the variable costs of the units sold in a period is the total contribution that the sales of all the units in the period make towards the fixed period costs of the business.
- Once these are covered, the remainder of the contribution is profit.
- Thus a business can work out its profit, using a marginal costing statement, for any given period from the total contribution and fixed costs figures: *total contribution less total fixed costs = profit*

Example, marginal costing

The Wyvern Bike Company makes 100 bikes each week and its costs are as follows: Direct materials £4,000; Direct labour £5,000; Production overheads £5,000 An investigation into the behaviour of costs has revealed the following information:

- direct materials are variable costs
- direct labour is a variable cost
- of the production overheads, £2,000 is a fixed cost, and the remainder is a variable cost

The selling price of each bike is £200.

As an accounts assistant at the Wyvern Bike Company, you are asked to:

a. calculate the marginal cost of producing each bike
b. show the expected contribution per bike
c. prepare a marginal costing statement to show clearly the total contribution and the total profit each week

Advantages of marginal costing A marginal costing statement is of benefit to the managers of a business because:

- contribution, i.e. selling price less variable cost, is clearly identified
- with the marginal cost of output identified, the managers can focus on the contribution provided by the output
- the effect on costs of changes in sales revenue can be calculated
- it helps with short-term decision-making in the forms of
  – break-even analysis
  – margin of safety
  – target profit
  – contribution sales ratio
  – limiting factors
  – 'special order' pricing

Marginal and absorption costing compared

Marginal costing tells the managers of a business or organisation the cost of producing one extra unit of output. However, that one of the objectives of the costing system is to ensure that all the costs of a business or organisation are recovered by being charged to production. This is achieved by means of overhead absorption.

Marginal costing

- Marginal costing recognises that fixed period costs vary with time rather than activity, and identifies the variable production cost of one extra unit. For example, the rent of a factory relates to a certain time period, e.g. one month, and remains unchanged whether 100 units of output are made or whether 500 units are made (always assuming that the capacity of the factory is at least 500 units); by contrast, the production of one extra unit will incur an increase in variable costs, ie direct materials, direct labour, direct expenses (if any), and variable overheads – this increase is the *marginal cost.*

Absorption costing

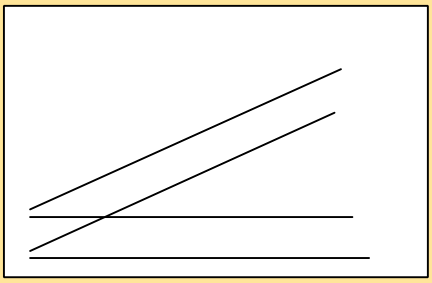
- This technique absorbs all production We can observe that sales revenue costs into each unit of output. Therefore, also varies directly with the sales the more units that are produced, the volume. This is illustrated in the cheaper will be the cost per unit – diagram below because the overheads are spread over a greater number of units.
- Absorption costing is an acceptable method of valuing inventories by accounting standards

Break even analysis

- Marginal costing classifies costs into

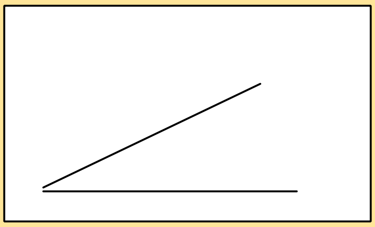
  variable costs and fixed costs
- Fixed costs are constant at all levels of output, this can be illustrated by the diagram below

- If this information is plotted on a single graph, the graph looks as follows



- Variable costs are those costs which vary directly with the level of output, i.e. the costs increase with output as

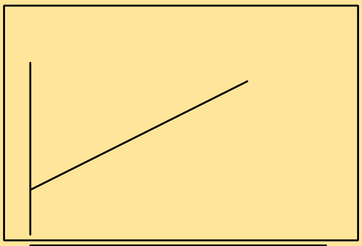
  illustrated below



- The diagram shows the relationship between the costs and revenues of a business at different levels of activity
- It can be noted that initially the total costs are above the total revenue,

implying that the business is making losses

- The total cost of production is obtained by summing up the total variable costs and total fixed costs at each level of activity. This is illustrated in the diagram below
- The gap between the TC and the TR narrows i.e. the losses decline as the level of activity increases
- The point where the TR = TC is called the ***break-even point*** because the business will be breaking away from making losses to making profits



- The break-even point can be identified by way of sales value or in units.
- There is a direct relationship between profitability and the level of output. Therefore, the further the business operates away from the break-even output the better
- The ***margin of safety*** measures the extent to which a firm's output can be reduced before the firm can start incurring losses, it is the difference between the level of activity and the break even output

Mathematical calculations

- The difference between the selling price and the variable cost is called contribution per unit
- This contribution must first accumulate to cover fixed costs before profits can be realised
- At the break-even point, the firm neither makes a profit nor a loss i.e. FC = Total contribution. In other words FC =

contribution per unit × BEO

- Making BEO the subject of the formula

- The break even in sales value can therefore be obtained by the formula BEO × Selling Price

Targeted profit

- Businesses may seek to attain a specified amount of profit
- It is therefore necessary for management to calculate the number of units required to be sold in order for the business to achieve the profit level
- In order to determine the units required to achieve the targeted profit, we use the formula

$$+$$

Accepting special orders

- Marginal costing can be used in deciding whether the business must accept an order below the normal selling price
- A customer may offer to buy extra units of output in return for a trade discount
- The business can only accept the offer if the price offered covers the fixed costs i.e. there is positive contribution
- If contribution is negative accepting such an offer negatively impacts on profitability.

Stock management

There are three types of stock that a business can hold:

i. **Stocks of raw materials:** inputs brought from suppliers waiting to be used in the production process.

ii. **Work in progress:** incomplete products still in the process of being made

iii. **Stocks of finished products:** finished goods of acceptable quality waiting to be sold to customers.

The aim of stock control is to minimise the cost of holding these stocks whilst ensuring that there are enough materials for production to continue and be able to meet customer demand.

- The stock control department will have to work closely with the purchasing and marketing departments to decide on a sustainable stock levels
- The marketing department should be able to provide sales forecasts and so allow stock control managers to judge the type, quantity and timing of stocks needed.
- As it is difficult to ensure that a business has exactly the correct amount of stock at any one time, the majority of firms will hold buffer stock. This is the "safe" amount of stock that needs to be held to cover unforeseen rises in demand or problems of reordering supplies.

Stock management

- Good stock management by a firm will lower costs, improve efficiency and ensure production can meet fluctuations in customer demand.
- It will give the firm a competitive advantage as more efficient production can feed through to lower prices and also customers should always be satisfied as products will be available on demand.
- However, poor stock control can lead to problems associated with **overstocking** or **stock-outs**.
- If a business holds too much **buffer stock** (stock held in reserve) or overestimates the level of demand for its products, then it will **overstock**. Overstocking increase costs for businesses as holding stocks are an expense for firms for several reasons.

i. Increases warehouse space needed

ii. Higher insurance costs needed

iii. Higher security costs needed to prevent theft
iv. Stocks may be damaged, become obsolete
v. Money spent buying the stocks could have been better spent elsewhere

The opposite of an overstock is a **stock-out**. This occurs when a business runs out of stocks. This can have severe consequences for the business:

i. Loss of production (with workers still having to be paid but no products being produced)
ii. Potential loss of sales or missed orders. This can harm the reputation of the business.

In these circumstances a business may choose to increase the amount of stock they hold in reserve (buffer stock). There are advantages and disadvantages of increasing the stock level.

Advantages

- Can meet sudden changes in demand
- Less chance of loss of production time because of stock outs
- Can take advantage of bulk buying economies of scale

Disadvantages

- Costs of storage – rent and insurance
- Money tied up in stocks not being used elsewhere in the business
- Large stocks subject to deterioration and theft

Just in time stock control

- JIT means that stock arrives on the production line just as it is needed.
- This minimises the amount of stock that has to be stored thus reducing storage costs.

Advantages of JIT

- Reduces costs of holding stock e.g. warehousing rent
- No money tied up in stock, can be use better elsewhere

Disadvantages of JIT

- Needs suppliers and employees to be reliable
- May find it difficult to meet sudden increase in demand

Economies of scale

- Economies of scale are the **cost advantages** that a business can exploit by **expanding their scale of production.**
- The effect of economies of scale is to reduce the average (unit) costs of production
- There are different types of economies of scale

Internal economies of scale

Internal economies of scale arise from the growth of the business itself. Examples include:

Technical economies of scale: Large-scale businesses can afford to invest in expensive and specialist capital machinery. For example, a supermarket chain such as TM or OK can invest in technology that improves stock control. It might not, however, be viable or cost-efficient for a small corner shop to buy this technology.

Specialisation of the workforce: Larger businesses split complex production processes into separate tasks to boost productivity. By specialising in certain tasks or processes, the workforce is able to produce more output in the same time.

Marketing economies of scale: A large firm can spread its advertising and marketing budget over a large output and it can purchase its inputs in bulk at negotiated discounted prices if it has sufficient negotiation power in the market. For, instance, the major food retailers have buying power when purchasing supplies from farmers and other suppliers.

Managerial economies of scale: This is a form of division of labour. Large-scale manufacturers employ specialists to supervise production systems, manage marketing systems and oversee human resources.

Financial economies of scale: Larger firms are usually rated by the financial markets to be more 'credit worthy' and have access to credit facilities, with favourable rates of borrowing. In contrast, smaller firms often face higher rates of interest on overdrafts and loans.

External economies of scale

External economies of scale occur **within an industry**. Therefore, they benefit every firm in the particular industry. Examples of external economies of scale include:

- Development of **research and development facilities in local universities** that several businesses in an area can benefit from
- Spending by a local authority on improving the transport network for a local town or city
- **Relocation of component suppliers** and other support businesses close to the main centre of manufacturing are also an external cost saving

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Lean production

There is much evidence to suggest that the traditional mass production methods, can create problems, which leads to inefficiency. The main problems are:

- **Employee boredom and low morale**: particularly where employees undertake repetitive jobs
- **Equipment failure:** breakdowns of equipment that can cause hold-ups elsewhere in the production process
- **Equipment obsolescence:** where a machine quickly becomes outdated, although there is little incentive to replace it if the machine had cost a lot of money

As a result of these problems, businesses have increasingly looked to see if they can make their production more efficient by becoming more "flexible" and "lean".

Lean production is an approach which originated in Japan during the 1950's and 1960's and has recently been increasing in popularity among firms. Its main objective is to eliminate all forms of waste in the production process and so produce more by using fewer inputs. There are several forms of waste that lean production aims to eliminate.

- Waste from materials
- Waste of worker's time and effort
- Waste of floor space
- Waste from defective products By reducing this waste the costs of firms will decrease and they will become more efficient and competitive. The idea is to make the product right first time (not spend time checking and rechecking).

There are several popular **management techniques** that have been developed to help achieve "lean production". The three most popular are:

i. Cell production
ii. Kaizen (continuous improvement)
iii. Just-in-time ("JIT") manufacturing.

Lean production methods

Cell production

In traditional production, products were manufactured in separate areas (each with a responsibility for a different part of the manufacturing process) and many workers would work on their own, as on a production line. In **cell production**, workers are organised into **multiskilled teams.** Each team is responsible for a particular part of the production process including quality control and health and safety. Each cell is made up of several teams who deliver finished items on to the next cell in the production process.

Cell production can lead to efficiency improvements due to increased motivation (team spirit and added responsibility given to cells) and workers sharing their skills and expertise.

Quality control and assurance

- A quality product needs to be 'fit for purpose'. This means the product must meet or exceed the customer requirements.
- It should be noted that a good quality product does not therefore have to be an

expensive product; it merely has to fulfil its purpose within the eyes of the customer.

- It is important to remember that it is the customer who sets the "quality standards" in terms of their overall expectations of quality. There are several ways that a customer may define quality:
  - Reliability
  - Fit for purpose
  - Design
  - Safety
  - Long-lasting
- In some cases, government act to encourage minimum standards for certain products. For example, the Standards Association of Zimbabwe (SAZ).
- The SAZ a certification mark that offers proof that a product or service complies with the relevant publicly available specification. It symbolises quality and safety.

Importance of Quality

Quality is important for two main reasons: reputation and costs.

1. Reputation

For virtually all purchasing decisions, customers choose which product to buy based on price and/or quality, and occasionally on other factors such as the delivery time. The reputation of a business therefore depends on these factors and it is often quality which can have the longest lasting impression. Customers often complain about the poor quality of the products and services they buy. Conversely, a positive recommendation by a customer (for example by recommending a product or service to a friend) helps to develop a positive reputation for quality. There are many situations in which quality can prove to be less than expected: for example:

- Poor service at a restaurant
- A bus that runs late or is cancelled
- Clothing that unexpectedly shrinks in the wash

A good quality product can therefore provide a competitive edge over rivals and can lead to significant marketing advantages. For example, a business will benefit from more repeat purchases and a longer life cycle for its product. It may also be able to charge a premium (higher) price and so boost revenue.

2. Costs

A poor quality product does not only harm reputation and therefore sales but also increases costs to businesses. There are many costs of poor quality, including:

- Cost of reworking or remaking the product
- Costs of replacements or refunds
- Wasted materials
- Costs of employing more staff to detect and solve quality problems

These extra costs will decrease the competitiveness of a business, as it may have to raise prices to cover them.

Ways to Manage Quality

1. Quality Control

The objective of quality control is to ensure each finished product meets the standard set out by the business for a quality product. The traditional method by which a firm tries to achieve this quality standard is by having a separate Quality Control department whose inspectors check the finished items and reject defective or substandard products. This method therefore **detects** quality problems at the end of the production process before they reach the final customer. The Quality Control department would then try and change an aspect of the production process and procedure, in order to solve quality problems that seem to occur most often.

This approach hopefully stops defective products getting to the market place and harming a firm's reputation but evidence shows that it has limited success at reducing the number of sub standard products being produced and therefore wasting a firm's resources.

2. Inspection

This method involves inspecting the inputs into the production to ensure that they are of acceptable quality, this avoids the use of defective materials which can negatively affect the quality of goods and services produced. The process is also carried out on the machinery to ensure that it is operating efficiently.

Testing

This method involves testing the output produced to establish if it confines to acceptable quality standards. The major weakness of this approach is that it is reactive as it seeks to identify poor quality products as opposed to avoiding their production. Some tests are destructive to the product i.e. a product used for testing can no longer be sold to earn income.

3. Total Quality Management

An alternative and increasingly popular method of ensuring quality is known as **Total Quality**

Management (TQM). TQM is best described as being an "attitude" in a business where everyone in the business is committed to achieving quality – not just the people in the Quality Control or production departments. It means that quality is being checked at every stage of the production process, as all employees are trained to check their own work (self-checking).

Two of the main aims of TQM are **"zero defects"** and **"total customer satisfaction**". "Zero defects" refers to the aim of producing goods and services with no faults or problems. To achieve this requires:

- Strong teamwork
- Open sharing of information about what quality problems are arising and how they are caused
- Investment in improving and refining production processes There are various advantages and disadvantages of introducing TQM:

Advantages

- Improves reputation- faults and problems are spotted and sorted quicker (zero defects)
- Higher employee morale– workers motivated by extra responsibility, team work and involvement in decisions of TQM
- Lower costs – Decrease waste as fewer defective products and no need for separate Quality Control inspectors

Disadvantages

- Initial introduction costs- training workers and disrupting current production whilst being implemented
- Benefits may not be seen for several years
- Workers may be resistant to change – may feel less secure in jobs

To sum up, the success of TQM will depend upon the attitudes of workers throughout the business and how readily they accept the changes to their traditional working practices. This implies that the level of worker motivation is critical for the success of TQM

CRITICAL PATH ANALYSIS

Many larger businesses get involved in projects that are complex and involve significant investment and risk. As the complexity and risk increases it becomes even more necessary to identify the relationships between the activities involved and to work out the most efficient way of completing the project.

The essential technique for using CPA is to construct a model of the project that includes the following

- A list of all activities required to complete the project
- The time (duration) that each activity will take to completion
- The dependencies between the activities

Using this information, CPA calculates:

- The longest path of planned activities to the end of the project
- The earliest and latest that each activity can start and finish without making the project longer

This process determines which activities are "**critical**" (i.e., on the longest path) and which have "total float" (i.e. can be delayed without making the project longer).

In project management, a critical path is: ***The sequence of project activities which add up to the longest overall duration***

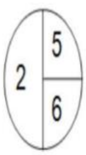
The critical path determines the shortest time possible to complete the project.

Any delay of an activity on the critical path directly impacts the planned project completion date (i.e. there is no float on the critical path).

Conventions in drawing the network

- There is only entry (starting) point into a network and one exit (finishing) point
- Networks are drawn from left to right but not necessarily to scale
- Every activity shall be shown by a line
- Events which are transitions between activities are shown by circles
- Every activity must have a preceding event (head) and a succeeding event (tail).
- An activity cannot start until its tail has been reached
- Activities must not share the same tail event and the same head event with any other event

The main components of a network analysis are summarised below

Component	Description
Node	A circle that represents a point in time where an activity is started or finished. The node (circle) is split into three sections:  The left half of the circle is the unique node (activity) number – the network diagram draws these in order. The top right section shows the earliest start time (EST) that an activity can commence based on the completion of the previous activity. The bottom right section shows the latest finish time (LFT) by which the previous activity must be completed
Activities	An activity is something that takes time. An activity is shown on the network as a line, linking the nodes (circles). A description of the activity, or a letter representing the activity, is usually shown above the relevant line
Duration	The length of time it takes to complete an activity – shown as a number of the relevant units (e.g. hours, days) under the activity line

Dummy activities

These are not actual activities because they don't consume time or resources. Instead they show the logical dependency between other activities. Instead they are imaginary activities designed to show logical dependency between projects so as to avoid violating the rules of network construction. This rule prohibits different activities to share the same head and tail. The dummy activity is shown by a dotted line on the network diagram.

Evaluating CPA

The main advantages and disadvantages of a business using CPA can be summarised as follows:

Advantages of CPA

- Most importantly – helps reduce the risk and costs of complex projects
- Encourages careful assessment of the requirements of each activity in a project
- Help spot which activities have some slack ("float") and could therefore transfer some resources = better allocation of resources
- A decision-making tool and a planning tool – all in one
- Provides managers with a useful overview of a complex project
- Links well with other aspects of business planning, including cash flow forecasting and budgeting

Disadvantages of CPA

- Reliability of CPA largely based on accurate estimates and assumptions made
- CPA does not guarantee the success of a project – that still needs to be managed properly
- Resources may not actually be as flexible as management hope when they come to address the network float
- Too many activities may the network diagram too complicated. Activities might themselves have to be broken down into mini-projects

ADVANCED LEVEL BUSINESS STUDIES NOTES