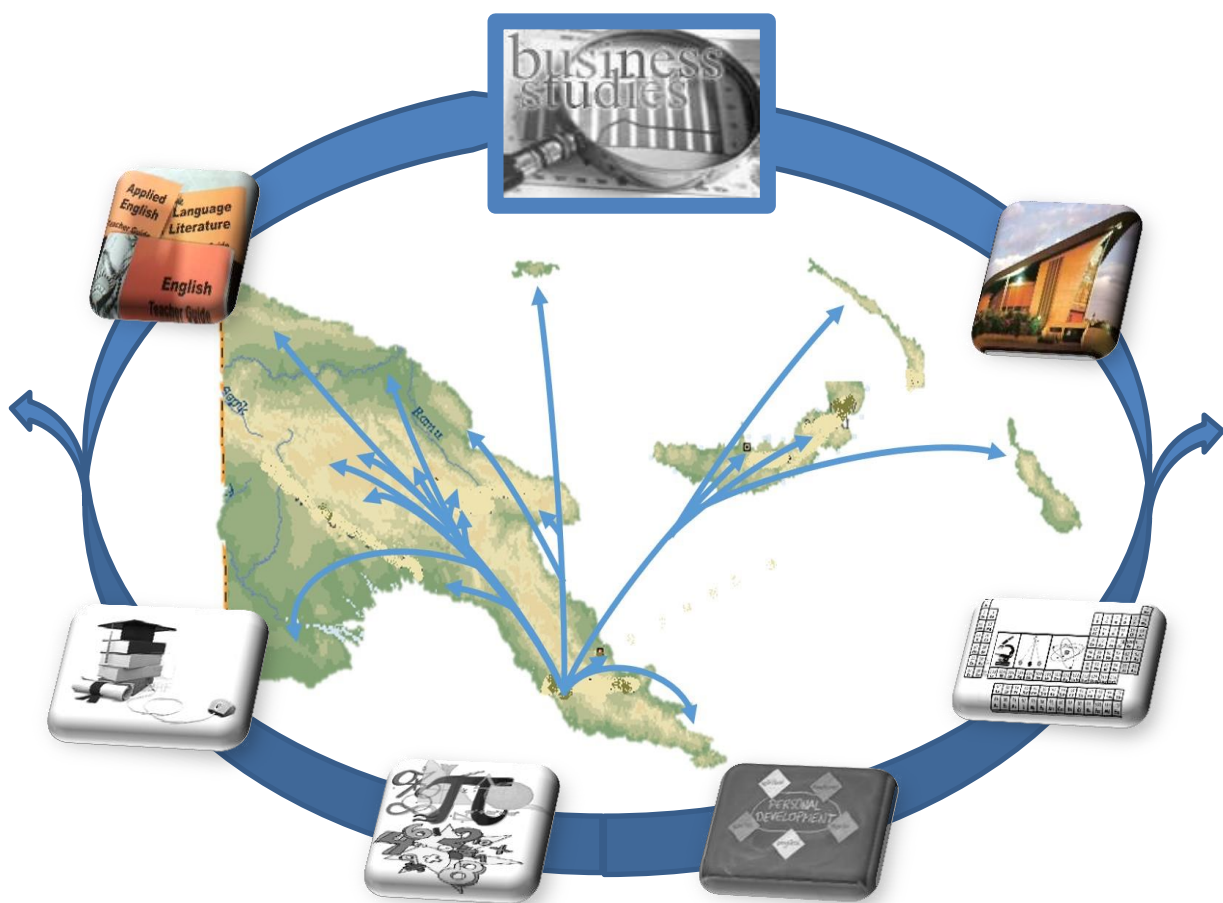




DEPARTMENT OF EDUCATION

GRADE 11 BUSINESS STUDIES

MODULE 2 BUSINESS ORGANISATIONS AND MANAGEMENT



FODE DISTANCE LEARNING



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GRADE 11

BUSINESS STUDIES

MODULE 2

BUSINESS ORGANISATIONS AND MANAGEMENT

TOPIC 1: THE NATURE OF BUSINESS

TOPIC 2: LEGAL FORMS OF BUSINESS

TOPIC 3: KEY BUSINESS FUNCTIONS AND BUSINESS ENVIRONMENT

TOPIC 4: THE NATURE OF ORGANISATIONS

TOPIC 5: THE NATURE OF MANAGEMENT

TOPIC 6: ISSUES AFFECTING BUSINESS ORGANISATIONS



Acknowledgements

We acknowledge the contributions of all Primary Teachers who in one way or another helped to develop this course.

Our profound gratitude goes to the former Principal, Mr Demas Tongogo for leading FODE team towards this great achievement. Special thanks to the staff of MAL and Business Studies Department of FODE who played an active role in coordinating writing workshops, outsourcing lesson writing and editing processes.

We also acknowledge the professional guidance provided by Curriculum and Development Assessment Division throughout the processes of writing and, the services given by member of the Primary Section and Academic Committees.

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DIANA TEIT AKIS

PRINCIPAL



Flexible Open and Distance Education
Papua New Guinea

Published in 2017

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Papua New Guinea

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SECRETARY'S MESSAGE

Achieving a better future by individual students and their families, communities or the nation as a whole, depends on the kind of curriculum and the way it is delivered.

This course is part and parcel of the new reformed curriculum. The learning outcomes are student – centred and allow them to be demonstrated, assessed or measured.

It maintains the rationale, goals, aims and principles of the national curriculum and identifies the knowledge, skills, attitudes and values that students should achieve.

This is a provision by Flexible, Open and Distance Education as an alternative pathway of formal education.

The course promotes Papua New Guinea values and beliefs which are found in our Constitution, Government policies and reports. It is developed in line with the National Education Plan (2005 -2014) and addresses an increase in the number of school leavers which has been coupled with a lack of access to secondary and higher educational institutions.

Flexible, Open and Distance Education curriculum is guided by the Department of Education's Mission which is fivefold:

- To facilitate and promote the integral development of every individual
- To develop and encourage an education system which satisfies the requirements of Papua New Guinea and its people
- To establish, preserve and improve standards of education throughout Papua New Guinea
- To make the benefits of such education available as widely as possible to all of the people
- To make the education accessible to the poor and physically, mentally and socially handicapped as well as to those who are educationally disadvantaged.

The college is enhanced to provide alternative and comparable pathways for students and adults to complete their education through a one system, many pathways and same outcomes.

It is our vision that Papua New Guineans harness all appropriate and affordable technologies to pursue this program.

I commend all those teachers, curriculum writers and instructional designers who have contributed so much in developing this course.

DR. UKE KOMBRA PhD
Secretary for Education



STUDY GUIDE

- Step 1: Start with Topic 11.2.1, study the first sub-topic notes and do the Learning Activities as you go along. Turn to the back of your module to correct the answers of your learning activities.
- Step 2: When you have completed the first sub-topic notes, then, you can move on to the next subtopic. Continue to do the Learning Activities as you go along. Turn, to the back of your module to correct the answers of your learning activities.
- Step 3: If you make any mistake, go back to the notes in your module and revise the notes well and try to understand why you gave an incorrect answer.
- Step 4: After completing your topic 11.2.1, then complete the Topic Test in the Assessment Book.
- Step 5: Go to Topic 11.2.2 and repeat the same process in steps 2, 3 and 4 until you complete your second topic. You will also repeat the same process until you complete our six (6) topics.
- Step 6: After you have completed your six (6) topics, do also the Module Examination in the Assessment Book.
- Step 7: Check through your Assessment Book, when you are satisfied, then submit your Assessment Book to your Provincial Centre for marking.

Study Schedule

Here is the Study Schedule. It will guide you to complete your module and its assessment.

| WEEKS | TOPICS/SUBTOPICS | ASSESSMENT | COMMENTS |
|-------|--|------------------------|----------|
| 1-3 | Topic 11.2.1,2,3 | Topic 11.2.1 ,2,3 Test | |
| 4 | Topic 11.2.4 | Topic 11.2.4 Test | |
| 5-6 | Topic 11.2.5 | Topic 11.2.5 Test | |
| 7-8 | Topic 11.2.6 | Topic 11.2.6 Test | |
| 9 | | Module Examination | |
| 10 | Submit your Assessment Book 1 to your Provincial Centre for marking. | | |

Remember

As you complete each lesson, tick the box on the content's page. This shows what you have done and what you still have to do each Topic.

All the best and enjoy your studies with FODE- Business Studies.



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MODULE 11.2 BUSINESS ORGANISATIONS AND MANAGEMENT

MODULE INTRODUCTION

In this module unit, you will learn the nature of business organisations in Papua New Guinea. The essential elements of this unit include: the roles that businesses play in the community, and the economy at large; the forms of business organisations that businesses adopt in order to perform their key functions; and the internal structures and external environment that impact on businesses. In this unit you will also learn a range of management functions and the impact of the internal structures and the external environment of businesses on these functions.



Broad Learning Outcomes

On successful completion of this module, students will be able to:

- Describe the main roles of businesses and the main forms of the business strategies.
 - Discuss and analyse the impact of issues affecting business organisations.
 - Explain the impact of issues affecting business environment on local businesses in PNG.
 - Identify and describe the typical internal and external environment of businesses.
-



Time Frame

This unit should be completed within 10 weeks.

If you set an average of 3 hours per day, you should be able to complete the unit comfortably by the end of the assigned week.

Try to do all the learning activities and compare your answers with the ones provided at the end of the unit. If you do not get a particular exercise right in the first attempt, you should not get discouraged instead, go back and attempt it again. If you still do not get it right after several attempts then you should seek help from your friend or even your tutor. Do not pass any question without solving it first.



11.2.1 The Nature of Business

In this topic you will learn about what a business is that and their features. You will also learn about the roles and goals of businesses. By knowing the roles and goals of businesses, these will help you operate and manage your own business successfully.



Learning Outcomes;

On successful completion of this module, students will be able to;

- Identify and discuss the features of the nature of businesses.
 - Define, identify and discuss the importance of the role of businesses.
 - Define businesses goals, state their importance and identify the different types of business goals.
-



11.2.1.1 Nature of Business

Businesses are the activities of making, buying or selling goods or providing services in exchange for money. They also refer to the amount of work done by a store, company or factory. Therefore, businesses are any profit-seeking organization that provides goods or services designed to satisfy customer needs. As organisations, they have goals, objectives, functions, responsibilities and structures.

Businesses come in various sizes and structures; ranging from micro to very large multi-national corporations. Their ownership also varies according to their size and structure. Businesses can also be classified according to their formality; whether formally registered or not. In Papua New Guinea today two categories are very evident the formal sector and the informal sector. The informal sector, as it is called, is widespread throughout the urban and the rural areas. The government allows them to operate, but sometimes there are some restrictions imposed by the government. However, the government requires that all businesses are registered so that they can be given formal recognition. Businesses that are registered by the Investment Promotion Authority are included in the formal sector. It is easy to control formally registered businesses.

For this part, you are presented with the four common categories of business activities. These categories, as you can see, fulfill the definition of businesses presented above. In other words, they are all aimed to provide goods or services and make a profit in the process.

There are four categories of businesses:

1. Hobby business

Just as the name suggests, a business where the owner enjoys a particular craft or activity which he or she regularly or somewhat, occasionally undertakes and makes a little money selling items or services. Typically this type of business is very small and is used as a fun outlet for energy or a supplement to one's regular income. One example of a hobby business would be someone who writes children's stories for fun. He is a retired teacher, who uses his free time to write short stories, which he sells to publishers to publish. Though he makes some money, his main interest is to have fun with his work. In fact, many retired people have a great deal of fun with hobby business, which help them earn a little extra spending money.

2. Lifestyle business

The second type of business is called 'lifestyle' business. A lifestyle business is one in which the owner makes a living for income that typically could be earned working for someone else. However, the purpose of lifestyle business is not really the money they make, but the lifestyle they enjoy. Consider a young couple who enjoys outdoor activities. Even though both are educated and could work for an employer making a good salary, the couple really wants to do something outside. So the couple opens a hiking and rafting business in the mountains. Although their income is not what they can make working in the city, it is the lifestyle they enjoy; rafting, camping and hiking. which allow them to enjoy their favorite activities and get paid providing these activities.



Lifestyle business is a real business. It often requires funding, accounting and marketing but can be much less stressful than a more conventional business with employees and huge overheads.

3. Small business

The third category is what we call a 'small business'. Although there are definitions offered by the government, what we will consider small business will have the following:

- a. Has a small group of owners, all personally on the hook for success or failure of the business.
- b. Employ people beyond the owners
- c. Has some form of formal office and store.

When you typically consider a small business, it satisfies the three conditions given above. There are numerous examples of small businesses including your local hardware store, beauty salon, grocery store, bakery, bookshop and accounting firm. If you move around the streets in some of our towns today, you will still find some of these businesses along the streets. However, we are also seeing an increase in the number of franchises or stores representing large corporations.

The factor that separates a small business from the two previous businesses is that, it has a tangible location and employs people. By employing people, the owners are multiplying themselves by delegating tasks and responsibilities, which allow the business to get bigger than just the owner(s). This multiplication of self is what allows a lifestyle company to become a small company that enjoys larger returns from net profits instead of just the wages the owner can make by working for himself/herself.

4. Large companies or corporations

The fourth category of business comprises all the large corporations employing millions of people all around the world. These companies are usually traded (they sell stock on one of the large stock exchanges) and are highly structured with offices either all over a country or all over the world.



11.2.1.2 Role of Business

A business is an integral part of any capitalist or market economy. Capitalism promotes the individual or collective pursuit of profit. As opposed to a command economy, capitalism encourages free enterprise. In a free economy, market forces of demand and supply operate freely to set the price. The price of products can be high if their demand is high. Likewise, the prices can be low if the demand is low. In a command economy the government controls the factors of production and determines what is produced, how much is produced and who shall produce it. In a command economy free enterprise is restricted by the government. A mixed economy is one that has elements of both the command and free economies. Papua New Guinea has a mixed economy.

Any business is a risky endeavor with an uncertain life expectancy. It should always remain a driver of motivation, a creator of wealth and a forerunner of economic freedom. The core mission of a profit-driven entity is not to become a charity. But neither is it solely to maximize short-term profits at the expense of other stakeholders. It is a combination of both which resulted in a business model called the 'stakeholder value creation' model.

The fundamental goal of business should always remain constant - providing the goods and services that people need or want. A profit is usually generated in the process of meeting peoples' wants and needs. It is a simple but constant relationship between the customers and the businesses which keeps the business alive.

Every business obtains its right to operate from the economic value it creates for a society at large. It also receives acceptance out of its performance for investors, its partnership with governments in solving social problems and by inspiring workers and the society as a whole.

Since the industrial revolution, the expectations placed on businesses have changed dramatically. Managers, investors and boards of directors of large corporations are now expected to address a range of social, economic and ecological challenges apart from the purely profit motive. In addition, in recent times there has been a sharp drop in the trust bestowed on most corporations. This is because the society increasingly views corporations as promoting corruption, fraud and greed.

Also today, we see an increase in the value placed on the increasing shareholder value. This is very evident when looking at the way large businesses or corporations are organised and managed. Maximising the shareholder value seems to be the dominant driver of many market economies in the world today. It is increasingly being referred to as the 'shareholder value creation' model.

An effective business organisation for that matter, must balance the 'human' and the 'economic' needs. The stakeholder model of the corporation does strike a delicate balance between the economic and humanist concerns. Therefore, it is still the popular model today.



11.2.1.3 Goals of business

| Goal | Description |
|-----------------------|---|
| Revenue | Money earned by a business through selling of its products. |
| Profit | When income is more than expenses, a profit is made. |
| Positive Cash flow | Money coming into the business is more than money leaving a business at any given time. |
| Return on Investment | The return made on an investment, expressed as a percentage. |
| Customer Satisfaction | When customer needs are fully met, they become satisfied. |
| Business Culture | A certain way of doing things in a business. |
| Build amazing Product | Products that are superior in quality while they appeal to customers. |
| Production Efficiency | A business' ability to produce more products using the given resources. |
| Employee Retention | A business' ability to keep its key workers for a long time. |
| Growth | The need for a business to expand its size and scale of activities. |

Table 2.1. Common business goals.
Source: Grade 11 Business Studies-2004.

Revenue

The first goal of any business is to earn revenue. Revenue motivates people to start up a business. Whether it is a service or trading concern, a business is set up by the owner to earn revenue. The main source of revenue is sales.

Many, if not all, businesses aim to increase their revenue. This is achieved through increased sales, better customer service and better marketing. Whenever revenue drops, a business faces a problem with its finances. So a business needs to maintain a healthy level of revenue every year to remain in operation.

Profit

Profit is the difference between income and expenditure. Every business sets its profit targets on a yearly basis. Profit, is therefore, considered by many, to be the number one business goal.

Every business aims to make a profit every year. But not all businesses make the same amount of profit. Some even make a loss at times. Generally, the higher the profit, the better it is for the business. Some businesses aim to make a satisfactory level of profit. Others aim to make the highest possible level of profit – profit maximisation.

Economic textbooks refer to profit maximisation as the ultimate aim of all businesses. Economists develop models to explain how profit maximisation is possible. Many businesses therefore, aim to achieve the highest possible level of profit or to maximise profit. But, under normal conditions, profit maximisation is rarely achieved. Some businesses realise this and aim to make a satisfactory level of profit each year. They set realistic profit targets to achieve. Therefore, profit satisfaction is a realistic business goal, not profit maximisation.



Nevertheless, profit is a powerful motivator that attracts people to do business. It is the real reward that is available to the owner of a business.

Positive Cash flow

A goal that is closely related to profit and revenue is 'cash flow'. Cash is more important than profit. It is the availability of cash that keeps the business running on a daily basis. Therefore, the flow of cash must always be positive for a business.

A business can make a profit but that does not mean there is enough cash on hand to pay for expenses and debt obligations when needed. It is the availability of the actual cash that matters most to the survival of any business. Many businesses have been declared bankrupt because they did not have the cash to pay off their debts on time.

When there is sufficient cash flowing into the business on time, it creates a positive cash flow situation. If insufficient cash flows into the business during a given time period, it creates a negative cash flow situation. So, it is a goal for every business to always maintain a positive cash flow.

Return on Investment

Return on investment (ROI) is yet another important goal for all businesses, as it indicates the return on the capital invested. A typical owner or shareholder would be interested in the return made on his or her investment. If the return is positive, the owner/investor is impressed. If the return is low or negative, it should be a concern to any investor or business owner.

ROI is usually a percentage of the profit over the capital invested in any given period. ROIs can be either short-run or long-run. Under the short-run ROI, businesses are under pressure to generate large amounts of cash and make a clear profit quickly. However, some businesses accept a long-run ROI as it allows them time to develop at a reasonable pace.

Customer service and satisfaction

Customers are the number one priority for any business. Because they give money to the business, they must always be given the top priority. The business must develop some strategies to keep the customer happy at all times. Happy customers will always return with their money to spend on the business' products. Unhappy customers will take their money to another business. Without customers a business will not survive.

Customer satisfaction is therefore an important business goal. A person with a brilliant business idea, starts up a business in order to make other people happy with his/her product. Therefore, the product must be available on time and at the place where customers want it. Responding to customers on time and listening to their complaints always work in favour of the business.

Continuously keeping customers happy is important for a business in the long run. When customers are happy, your business will experience success in all areas. Happy customers help defend the business from competitive threats.



Business culture

Many business people aim to build a culture for their businesses. It is a business goal to do things in a certain way. Over time it develops into a culture. It is this culture that business people want their businesses to be associated with. For example, workers uniforms, vehicle color and model, customer service, meeting styles, etc. are all tangible expressions of the culture of a business. These unique cultural features give a unique identity to the business. When there is a high competition, businesses depend on their unique cultures to retain their customers.

Build amazing products

Nothing represents a business more than its products. Business people always aim to present the best product to their market, so that customers can remember and value the product. A product that attracts customers always becomes a winner in the market. It is the benefits it gives to customers that enables it to be successful.

Innovative products come with new opportunities for business growth. So product improvement and excellence is another goal shared by all businesses.

Production efficiency

Businesses always aim to increase their production efficiency. That means, producing the right product, at the right time and for the right consumers. Price and quality also matters. As long as cost is controlled the business and its customers can benefit.

Production or output is determined by the fixed and variable resources of a business. By increasing the quantity of resources (variable resources) used, marginal output eventually declines. This is referred to as the *law of diminishing returns* in economics. This is particularly important for businesses that aim to achieve the highest level of production. For example, in an agricultural business, if more and more workers are working in the same field, with a fixed amount of capital and fertilizer, then at a certain point, output cannot be increased any further. The field has reached its optimal or most economic output level. Any additions of labour and resources will barely increase the output.

Employee retention

Because workers represent an important business asset, every business has a goal to retain their best workers and keep them happy at all times. When workers are well cared for, they will contribute positively towards business success. There are many ways of improving worker conditions and boosting their morale. Business owners must use some or all of these means and ways to retain their best workers.

Growth

Perhaps it is a goal of every business to grow their operations over time. All business owners want to expand their operations. This can only happen when the business achieves continuous success. So the business success on the whole, leads to the business growth and expansion. Business growth is usually expressed in numerous ways, the common one being in percentage terms. However, it can also be expressed in terms of sales or in terms of share



price. In addition, a general increase in the value of the business assets reflects the business growth.



Learning Activity 11.2.1: Complete the activities given below.

1. What is a business?

2. How is profit maximisation different from profit satisfaction? Which one is achievable?

3. Differentiate between a lifestyle business and a hobby business.

4. What is the “stakeholder value creation” business model?

5. Differentiate between ‘profit’ and ‘cash flow’.

6. What do you think will happen if a business places more priority on profit and less on customer satisfaction?

NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



11.2.2 Legal Forms of Business

This topic teaches you the forms or types of legal businesses to operate. What are legal businesses? These are types of businesses that are recognized by the government through the business laws of this country, Papua New Guinea.



Learning Outcomes;

On successful completion of this module, students will be able to;

- Define, list the features and identify the advantages and disadvantages of the sole proprietor.
 - Define, list the features and identify the advantages and disadvantages of the partnerships and business groups.
 - Define, list the features and identify the advantages and disadvantages of companies.
-



Introduction

A business can be organised in one of the four common ways. These forms of organisations are called legal structures because the law of Papua New Guinea approves and recognises them. In other words, there are laws governing each of these structures. When registering a business at the Investment Promotion Authority (IPA), the owner or owners must specify which structure it is to take. Sole proprietorship is the simplest form which many entrepreneurs in the country are engaged in. This is followed by partnerships and business groups which are also a simple form. A corporation, on the other hand, is complicated because it is governed by other regulations as well. The number of business owners – ownership - is also determined by the legal structure.

11.2.2.1 Sole Proprietorship

This is the most basic and simple business structure. It has one owner. The sole proprietor contributes all the resources towards the starting of a business. Initially, the sole owner works for himself or herself. As the business expands, extra workers are employed to help the owner in the running of the business.

A sole owner makes all decisions and takes full responsibility for the business. Owners of this type of business have unlimited liability. This means that these owners are liable for all the business debts. A sole proprietorship doesn't have a separate legal identity from its owner. Sole proprietorships are easy to start up. They are also very flexible to operate.

Because of the unlimited nature of liability, sole traders face difficulty in raising external capital or finance. That is why sole proprietorships take a long time to get established. Also, their expansion is slow in the first two to three years.



11.2.2.2 Partnership and Business Groups

Partnership

A partnership usually involves two or more people who agree to go into business together. A partnership is started by an agreement between the partners of the business. Not all agreements are written down. However, it is advisable to have the agreement on paper in case any disagreements arise in the future.

Partners may contribute equal amounts of capital, but this is not a standard requirement. Some partners may even contribute valuable skills rather than capital or money. Silent or sleeping partners do not actively participate in the running of the business.

A partnership does not have a separate legal identity from its owners. Therefore, its owners are personally liable for all the debts and losses of the business. They have unlimited liability.

Partners are legal agents for each other. They are liable for contracts made by one partner. They will also be jointly and severely liable for torts or wrongful acts committed by any partner.

It is important to have the agreement written on paper covering the rights and duties of each partner. This would include: name, type, place of business, the capital contribution of each partner, the term of the partnership, each partner's entitlement to the profits of the business, the partner's responsibility for losses, and the procedures for transferring interests in the partnership.

A partnership can be dissolved in a number of ways. Death or bankruptcy of a partner will automatically result in the dissolution of the partnership. Partners can also agree mutually to dissolve their partnership if they feel that there is a need for it to be ended.

Business Groups

Business groups are unique to Papua New Guinea. The government encourages this business structure because it enables more citizens to participate in the formal economy. A business group can only be formed by people belonging to a particular clan or group. This operating structure is reserved for citizens of Papua New Guinea only. Foreigners are not allowed to register a business group in PNG.

Business groups must have a constitution. The constitution should cover the: name, membership, capital contribution, members' rights and duties, types of activities to undertake, profit distribution, and other relevant aspects.

A Dispute Settlement Authority (DSA) is a requirement for all business groups. Its role is to help settle any dispute using the relevant customary laws of the group. Members of this body are usually appointed based on their status within the group. They also have unlimited liability while ordinary members have limited liability. That means members of the DSA can lose more than the ordinary members if the business group fails.



11.2.2.3 Corporation (Company)

A corporation is an expensive structure to establish and run. It is formed or incorporated through the Investment Promotion Authority (IPA) and registered by the Registrar of Companies. Owners of a corporation are called shareholders. Shareholders contribute capital towards the formation of the corporation. As shareholders, they own a part of the corporation.

The Company's Act (1997) guides the incorporation of companies in Papua New Guinea. This Act includes many new changes. Many unnecessary requirements have been removed, making it much easier for the incorporation of corporations.

All corporations must have the initials 'Ltd' after their names to indicate limited liability. Limited liability implies that in the event that a corporation is dissolved through bankruptcy, shareholders only lose their initial capital contributed – nothing more, nothing less.

A corporation has a legal identity and is separated from the shareholders. Therefore, its profits are taxed separately from its owners. Corporations also have tax advantages. They do have greater access to finance. But they are heavily regulated by the government. The cost of forming a corporation is higher compared to other business structures.

As a separate entity, companies are usually run by professionals appointed by the board of directors. Therefore, shareholders are not actively involved in the day to day operations of the business. Corporations can choose to either go public by listing their shares on the stock exchange or remain private. The Companies Act outlines the specific conditions for corporations wanting to go public. Public corporations can transfer their shares freely and trade openly on the stock exchange. The public can be invited to buy the shares through the stock exchange such as the Port Moresby Stock Exchange (POMSE).

Comparing operating structures

As shown in table 2.2 on page 21, various business operating structures exist. Four of these structures have been described earlier. The choice of legal structure is determined by the business type and its profitability. Relationships, family and tax positions of the people going into business also help determine the legal structure. The set-up and running costs of a particular structure should also be considered before it is chosen.

The structure chosen should

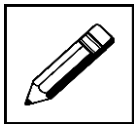
- comply with legal requirements.
- maximise protection of assets.
- minimise personal liabilities.
- maximise income and capital gains.
- allow for admission of new partners or investors.
- and be flexible.



| Feature | Sole proprietor | Partnership | Business Group | Corporation |
|-------------------------------------|-------------------------|-----------------------|----------------------------|-------------------------|
| Formation cost | Low | Moderate | Moderate | High |
| Ability to raise capital externally | Low | Moderate | Low | Moderate, at times good |
| Privacy | High | Moderate | Low | Low |
| Personal liability of owners | Unlimited | Unlimited | Limited except DSA members | Limited |
| Permanence | Limited to owner's life | Limited at most times | On-going | On going |
| On-going cost of compliance | Low | Low | Low | High |

Table 2.2: Comparing different business structures.

Source: Grade 11 Business Studies.

**Learning Activity 11.2.2: Complete the activities given below.**

1. State one (1) advantage of a sole trader over a partnership business.

2. Define the term 'limited liability.'

3. Differentiate between a public and a private corporation.

4. What is a stock exchange?

5. What does the initial 'Ltd' stand for?

6. Why do shareholders of a corporation have limited liability?

NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



11.2.3 The Key Business Functions and the Business Environment

In this unit you will learn about key functions of a business and the business environment required to operate any type of business. You will also learn about managing the operations of a business.



Learning Outcomes;

On successful completion of this module, students will be able to:

- Define-business operations, operations management, human resource, finance and debt financing and businesses environment.
 - Identify and explain the importance of business operations.
 - Identify the roles of marketing.
 - Discuss how operations management can achieve the business goals.
 - Identify and explain the process function or the functions of human resource.
 - Identify finance and debt financing.
 - Explain business environment and identify the elements that make up the business environment.
-



Introduction

All businesses perform four key business functions – *marketing, operations, human resources* and *finance* as shown by figure 3.1 below. These functions are important for the businesses success. The success level of businesses will depend on how each function is carried out.

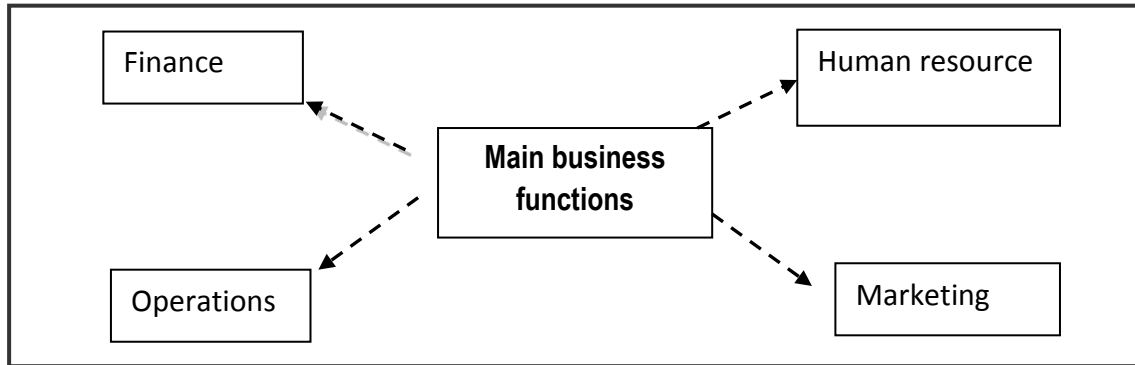


Figure 2.1: The main business functions.
Source: Grade 11 Business Studies-2004.



11.2.3.1 Marketing

Marketing is the process of planning the origin, pricing, promotion and distribution of ideas, goods or services. This creates exchanges that fulfil individual and organisational goals. Marketing is a process that enables individuals and businesses to exchange products.

Effective marketing requires careful planning through a series of logical steps. It begins with a clear vision of the product or service. This will be determined by the target market. The marketing mix must then be developed and implemented. Marketing mix is made up of the price, product, place, and promotion – usually referred to as the 4Ps.

There are two common approaches to marketing. The first approach is called the ‘product-oriented’ marketing. The second approach is called the ‘customer oriented’ marketing.

Under product oriented marketing, the main focus of marketing is on the product sold by the business. This approach is typical of small business owners, who are convinced of the attraction and value of their product.

Customer oriented approach is concerned with the customer rather than the product. In other words, it is customer-driven. The business tries as much as possible to take into consideration the opinions, demands, tastes, and preferences of the customer.

Understanding the market

The main group of buyers targeted by a business is called the ‘target market’ or the core customers. The target market or the core group of customers has to be identified before any production and selling takes place. Identifying the target market allows a business to make the most of its limited resources. It also helps to focus its efforts on the identified target market. The business increases its chances of success by limiting its attention on a selected group of customers.

Many businesses may have more than one target group of customers. When this is the case, it is important to rank these different target groups according to their importance. The usual criteria used to rank the customer groups is the amount of sales that can be generated from the different groups. Also, a business can assess the likelihood of each group buying the business’ products. More effort should be concentrated on the target market that accounts for the highest sales figure.

Marketing as an integrated business function

The customer is the most important factor for the business success. That fact need not be forgotten. Another fact is that marketing is the only business function that bridges a business with its customers. Therefore, all successful international corporations such as Sony Corporation, Microsoft, IBM, Apple and Facebook make sure that all efforts are focused on their customers. These large corporations have a marketing philosophy that places the customer firmly at the centre of their existence. In so doing, the customer becomes the most important person to the business.

If a business cannot successfully sell its products then there is something wrong somewhere. Maybe a wrong product was developed without consulting the marketing team. Or maybe the marketing team did not conduct a proper market research to determine the demand level for a product. It could even be a combination of both reasons.



All functions within an organisation, whether they have direct contact with customers or not, contribute towards fulfilling the needs of their customers. Functions such as finance, research and development (R&D), personnel, and others are interdependent. That means, no division or function can exist and survive in isolation. The need to serve a customer's need brings all these different units together.

Marketing is a function that has the capacity to supply other functions with the information needed to function. That is because marketing, as a business function, constantly interfaces or communicates with the external customer. This relationship helps transfer vital information from the customer to the other internal functions such as R&D and finance. The role of the marketing division is therefore crucial to the success of a business.



11.2.3.2 Operations

All businesses produce one or more products that are unique to its operations. These products can be physical (tangible) goods or non-physical (intangible) services. The production activities of the business must be organised logically and efficiently in order to produce the product. This is called operations management. Operations management refers to the control of the process by which a business makes a product.

Effective control of these activities is an important success factor. It enables the business to produce a reliable and quality product. Entrepreneurs must consider the three main components of the operations management in order to achieve success:

- the choice of appropriate business premises.
- the structuring of the production process itself and
- the ongoing task of improving operations over time.

Other components include: the human resources of the business, the management team, the pricing and distribution strategies, and the business plan.

There are three main elements of the operations management as shown in the diagram below.

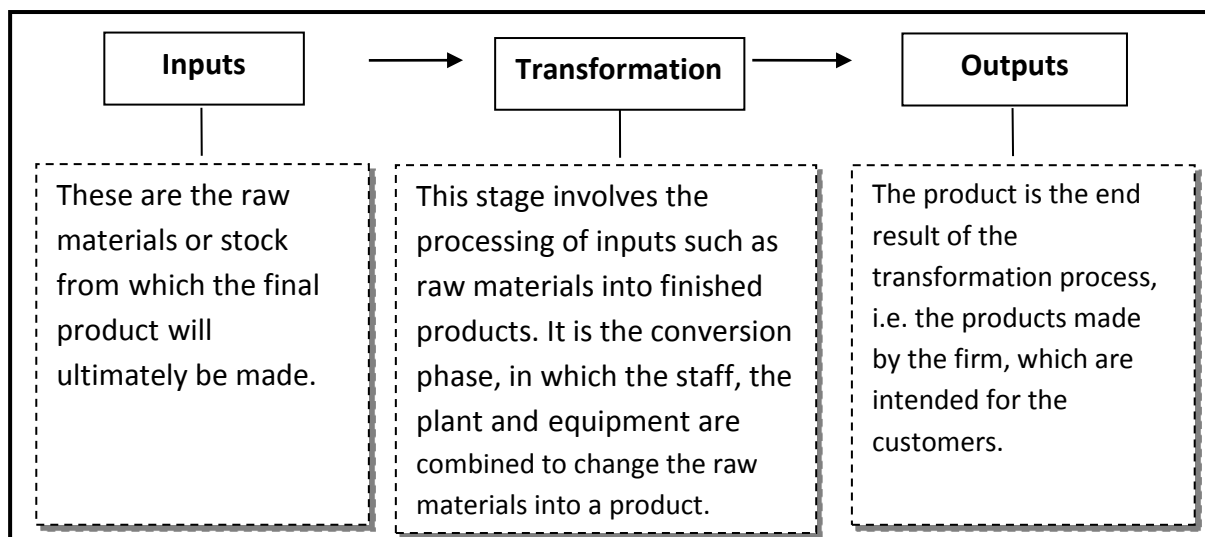


Figure 2.2: Main elements of the Operations Management.

Source: Grade 11 Business Studies-2004.



11.2.3.3 Human Resource and Finance

Human Resource

The simplest structure of a one-person business enterprise, poses little difficulty for the owner. However, in reality, small businesses will, at some later stage, employ other workers. This happens in order to deal with an expanded client base. It becomes necessary at some later stages, to free up the entrepreneur to concentrate on the management role.

Regardless of the point at which they are employed, workers or staff must be organised in a consistent and logical manner. This involves many issues such as;

- *How will people be recruited?*
- *On what basis will people be selected?*
- *How much should they be paid?*
- *How will the workplace be structured?*
- *What tasks will each worker perform?*
- *What is the best way to evaluate their workplace performance?*
- *How will the termination of employment be arranged later?*
- *How best can employees be retained?*

Human resource management deals with questions such as those above.

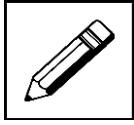
Finance

Once a business has decided on its product, it must consider how it is going to finance it. The amount of finance required will depend on the types of costs involved in setting up the business. Initial payments or start-up costs will be needed to start up the business. These include: license and fee payments, service connection fee, advertising costs, purchase of equipment; shop fittings, and renovation of land and buildings.

Once the business has commenced its operations, additional cash is needed to meet the operational or day-to-day running expenses. These include: purchasing and restocking; payment of wages, rent, insurance, power, telephone; and other minor expenses.

The waiting time before clear profits are made can vary depending on the type of business and competition in the market-place. Retail businesses can take up to twelve months to become profitable. During this crucial time, the owner must have access to spare cash to keep the business afloat. This crucial period is often referred to as the 'loss-making period'.

Businesses usually have two types of finance available to them. The first type is the owner's personal funds – also referred to as 'owner's equity'. The second type is money borrowed from external sources such as banks, also referred to as 'external equity'. The cost of external equity can vary depending on the source of the equity. For example, a bank may charge a lower interest on a business loan than finance company.



Learning Activity 11.2.3: Complete the activities given below.

1. State the main reason why the human resource management is a difficult business function.

2. How is marketing different from other business functions?

3. Differentiate between the 'product oriented' marketing and the 'customer oriented' marketing.

4. Why must every business focus its marketing efforts and attention on the customer?

5. Develop an operations cycle of a product you are familiar with. For example; the making of scones and ice blocks.

6. What is a 'loss-making' period of a business, and why is it important for a business owner to take it into consideration when planning?

7. Do you think it is easy for a start-up business to obtain external financing? Why?

NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



11.2.4 The Nature of Organisations

This topic teaches you about what an organisation is, its elements and structures. You will learn about the organisational strategy called SWOT (strength, weakness, opportunities and threat). You will also learn about the internal and external environment of organisations and the technology that is used.



Learning Outcomes;

On successful completion of this module, students will be able to:

- Define organisations, identify the types of organisations and discuss the creation of organisations, their benefits and importance.
 - Identify and explain the elements of organisations, discuss the features and the importance of different elements organisations.
 - Define structure, identify and explain the types of organisational structures and state the advantages and disadvantages of an organization.
 - Define strategy, strategic plan, and organisational strategies, identify and discuss types of organisational strategies.
 - Define internal and external environment, identify and explain the elements of internal and external environment of the business.
 - Define technology, identify and explain the different aspects of technology in organisations.
-



11.2.4.1 What are Organisations?

An organisation are all around us. But many people have trouble trying to understand organisations of various types and how they work. We associate organisations with buildings and offices and an employee or two. Because organisations are all around us, they affect us in one way or another.

We sometimes take organisations for granted too. It is often when something goes wrong that we start to recognise the existence of organisations. For example, parents only see the importance of a school when their child is ready to attend school. Likewise, we see the importance of a clinic or hospital when we become sick. Hospitals, churches, government agencies, schools, colleges and universities, stores, construction companies, banks and other forms of institutions are all organisations. They exist in every community.

In order to truly understand an organisation we must firstly look at some common characteristics they all share. Figure 2.3 below presents the key characteristics of every organisation.

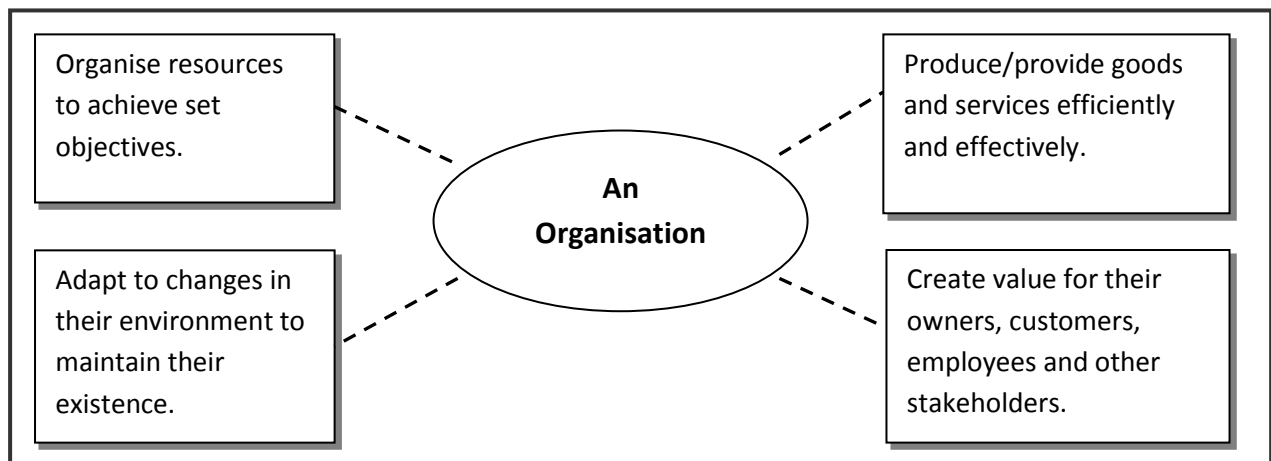


Figure 2.3. Organisational characteristics.
Source: Grade 11 Business Studies -2004.

An organisation is both physical and non-physical. That means some aspects are physical such as buildings, machines and people. Other aspects such as relationships, roles, responsibilities, mission, goals and objectives are non-physical. Physical and non-physical elements combine to bring an organisation into existence.

An organisation is therefore, a body or structure made up of relationships, responsibilities, authorities and duties. All organisations have purposes or goals which they set out to achieve. It is a basic framework within which work or production of all types is undertaken and accomplished.

Effective organisations rely heavily on effective direction and careful delegation. It would be useful at this point, to define the terms; 'responsibility', 'authority' and 'duty'. To become effective, an organisation must have effective direction and careful delegation.



Responsibility

The word responsibility refers to the obligation, to ensure that authority is correctly used and duties are properly performed. It normally carries the right to delegate authority and duties to others. The delegator is usually a manager or supervisor. On the other hand, the delegate is an ordinary worker. Delegation therefore flows from the top to the bottom of the organisational structure. However, at each level of delegation, the delegate is responsible to the delegator for the proper performance of the work delegated.

‘Accountability’ is, perhaps, a better substitute for the term ‘responsibility’. Responsibility or accountability must be accompanied by the compulsory authority, to direct the activities of subordinates.

Authority

In every organisation, authority flows from the top down. Authority and power go hand in hand. Authority refers to the right or power to enforce rules or give orders and power refers control and influence over other people and their actions. Managers have the right to require subordinates to perform their duties because of authority and power. It is essential that the subordinate staff concerned, know that this authority exists and its extent or boundaries. The recognition of authority is also important as it enables subordinate workers to perform the responsibilities and duties without questioning the authority.

Duty

A duty is what someone has to do. In an organisation, a job is a duty. Also, loyalty towards the organisation is a duty. Responsibilities and instructions are given by authorities to their subordinates. Subordinates have a duty or obligation to carry out the instructions of those in authority. Usually, an organisation’s system contains all orders, duties, instructions and obligations. Some duties are time bound; they are specific and expire once performed. Others are ongoing. In any case, the worker is duty-bound to act on orders, instructions and obligations. Failure to perform given duties results in some form of penalties.



11.2.4.2 Elements of Organisations

Organisations must function efficiently and effectively. Effectiveness means doing the right thing, while efficiency means doing things the right way. An organisation must therefore strive to achieve both efficiency and effectiveness. They must also adapt to changes in competition, legislation and the demands for its goods and services. At the same time organisations have to create value for their customers and for their employees. Organisations can also encourage innovation, create a demand for products and services and can influence people's lives.

Organisations vary in size, capacity and structure as well as in objectives. Businesses, for example, can come in the form of huge multinational corporations, small family businesses or one-person operations. Sole traders, family owned businesses, cooperatives, franchises or partnerships, and public or private corporations are other forms of business organisations.

Organisations can be understood by size and ownership as well as by industry and objectives. They also have stakeholders who can affect and influence the way organisations function. On the other hand organisations can influence their stakeholders.

| Stakeholders | Expected returns |
|-------------------------|---|
| Owners and shareholders | Profits and dividends |
| Government | Proper tax payments, compliance with laws, value for money, accountability, public protection and satisfaction. |
| Employees | Pay, benefits, job satisfaction. |
| Customers | Value for money, customer satisfaction. |
| Creditors | Returns on finance, credit worthiness. |
| Unions | Pay and other employment benefits. |
| Suppliers | Revenue, fair trade. |
| The community | Civil and social responsibilities and contribution to the community's economic development. |

Table 2.3: Stakeholders and their expected returns.

Source: Grade 11 Business Studies -2004.

As can be seen from table 2.3 above, every organisation has more than one stakeholder. Each stakeholder comes with its own interests, demands and expectations. It is this conflicting nature of stakeholder expectations that challenges organisations to better serve its entire stakeholders. Satisfying stakeholder interests is therefore a difficult thing for every organisation.

Organisations can be affected by the conflicting expectations and needs of stakeholders. Tensions or conflicts can arise when some stakeholder expectations are not met satisfactorily. For example, meeting the needs of customers may put pressure on the needs of suppliers. Or because prices are kept low, wages may not meet the expectations of employees and trade unions. Likewise, increases in wages may reduce the profits available for distribution to shareholders. These examples clearly explain the challenges which businesses face in trying to fulfil these differing stakeholder interests.



Private sector organisations are owned by either one or more individuals who expect returns such as dividends, profits and increased share value. Public sector organisations, on the other hand, are mostly owned, directly or indirectly, by the government and its agencies. The public expect satisfaction from the services provided by public organisations such as schools and hospitals.

Workers have a stake in both the public and private sector organisations. Workers, their unions and staff associations expect returns in the form of better pay and benefits, job satisfaction, fair promotion and equal opportunities.

Customers of all types have a stake or interest in many organisations. They depend on organisations for better quality of goods and services. They also depend on organisations to make goods and services available on time and at the right place. The prices they charge must be reasonable or affordable.

Creditors are concerned about the credit worthiness and financial responsibility of organisations. Suppliers depend on organisations for prompt payment for goods and services they supply. They also expect fair trading practices.

Finally, the community has a stake in all organisations. They expect public responsibility and social awareness from organisations, as well as contributions to the community's economic development (such as creating jobs, providing business opportunities to locally based suppliers and contractors). The community expects organisations to promote corporate social responsibility while running their business activities. A negative perception or opinion will affect an organisation's performance. Public opinion is often expressed through the government, the media, social network sites, NGOs or unions.



11.2.4.3 Organisational Structure

All organisations are based on some form of structure. They are usually categorised based on organisational theory and structure. However, in reality, many organisations are of the hybrid type, combining more than one structure.

Organisations can be shown in an organisational design. The purpose of the design is to create an organisational structure which fits in with its objectives, its resources and its environment. The structure describes the relationship between the different parts of the organisation and the people in it. It also specifies the division of work, the hierarchy and authority structure, and the formal links between the people working in the same organisation. In practice, there are cross-functional relationships, networks and informal links which are not described by a formal structure.

An organisation chart usually consists of a line diagram showing the chain of command and official channels of communication. Traditionally, senior managers are at the top, middle managers in the middle and the ordinary workers at the bottom of the structure.

An organisational chart presents the organisational pattern in a simple form. It enables nearly all members to see clearly where they fit into the organisational structure. Designers carefully examine the organisation before committing anything to paper. Defects and overlapping duties and responsibilities can easily be detected on paper and corrected. However, to be effective, a chart must be easily understood by all parties. Complicated charts make understanding difficult for most people.

The horizontal pattern

The horizontal pattern is a common structure used by many organisations. This pattern is easy to read and understand. Line authority and responsibility are simple to recognise. Likewise, connections are being made by solid line where here it is required to show functional relationships, such as in line and staff organisation, broken or dotted lines can be used (see Figure 2.3).

Line organisation

Line organisations are also called scalar or vertical organisations. This organisation is divided into departments based on similarity of skills, expertise, work activities, and resource use, each with a departmental head. Top management usually makes the department head responsible for the activities of the department. The head derives his or her authority from the top management. Authority then flows downwards through the supervisory layers to the bottom of the organisation. In this way, there is direct management control from the very top which flows through to the ordinary workers at the bottom. This form of organisation promotes rapid decision-making and simplifies coordination.

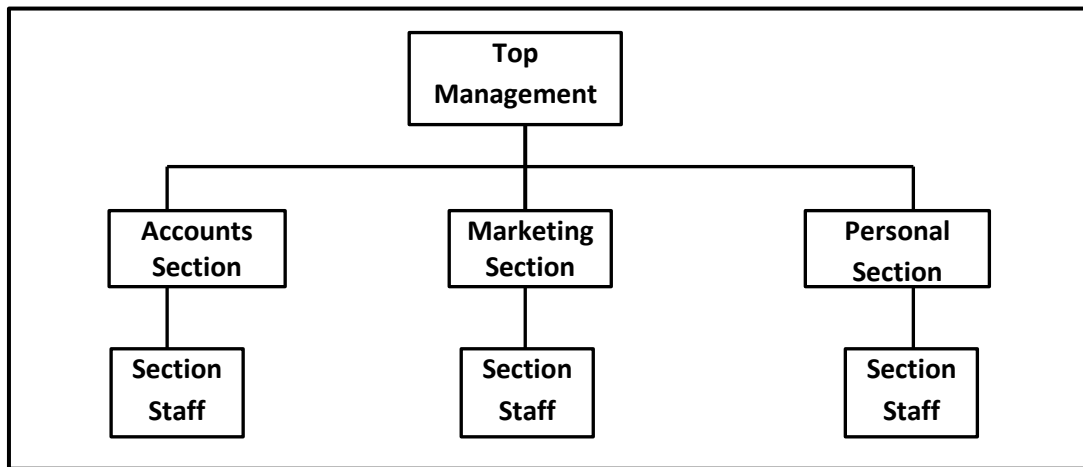


Figure 2.3. Line organisation chart.

Source: Grade 11 Business Studies -2004.

However, this style of organisation can become rigid or inflexible at times. Its effectiveness depends on the quality of the department heads. Also, cooperation between different departments and sections can sometimes be low. The pattern of this type of organisation is shown in figure 2.3 above.

Functional organisations

Functional organisations are also known by other names such as horizontal and staff organisations. Here various functions or work areas are identified and an expert in each is appointed. The expert will be responsible for special functions across various units or departments. This expert will be in direct contact with supervisors and staff in operating departments. He or she has some authority from top management to give direct instructions in consultation with the line managers and supervisors.

An accountant, for example, is appointed as the functional chief in regard to finance. He or she will have the right to advise and consult the sales staff regarding a particular financial transaction. Of course, this must be done with the knowledge of the sales manager. Similarly, the accountant will have the authority to instruct a purchasing clerk to cross-check a specific accounting transaction. In order to avoid any conflict, such actions must be communicated through the immediate supervisor. In both examples, the accountant can issue instructions only in the accounting treatment of particular transactions. But directing the sales staff on a purely sales matter can cause some conflict. Likewise, directing the purchase officer for an unrelated matter will cause some discomfort for the purchasing officer. Therefore, functional experts must ensure that they only offer support services and advice in the areas concerning their area of expertise without causing conflicts.

This structure brings together staff engaged in related activities, despite where they are in the organisational structure. It is suitable for small and medium sized enterprises. This structure allows for specialists from across the organisation to come together to develop high quality products or services for the organisation. It also helps staff to develop their skills and expertise in other areas of expertise.

Figure 2.5 below illustrates a line and staff organisation. It shows that the personnel manager is responsible for staff under him or her. The personnel manager also provides human resource related support services to other divisions of the organisation in areas such as job advertisement or applicant selection. Similarly, the chief accountant may provide accounting-related support services to other divisions such as sales and production.

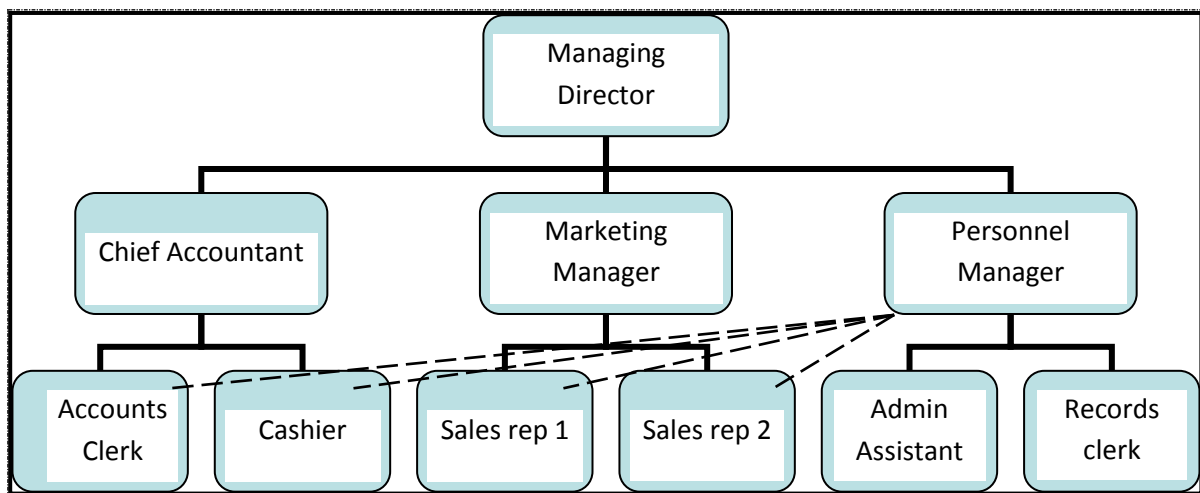


Figure 2. 5. Line and staff organisation.

Source: Grade 11 Business Studies -2004.

This form of organisation can sometimes be confusing for workers, especially where there is a sharp difference of opinion and conflicting instructions. Bad feelings can develop when staff officers try to exercise the authority of line officers. It is bad management practice for the staff support officers to try to exercise the authority of line managers. If anything goes wrong, it will be the line officers who will be held accountable; not the staff officers. Therefore, staff officers only have the authority to give advice and service to the line officers in their respective areas of expertise, for example; HR management, accounting and finance. Implementing authority always belongs to the line officers.

Committee organisations

This is the traditional form of organisational structure found largely in non-profit organisation. It is still common in public organisations such as government departments and agencies including schools, universities and hospitals.

A key characteristic of committee organisations is that decisions are made by a group. Decision-makers may be appointed or elected, according to the rules of the organisation. Committee organisational structure was never practised in profit organisations until very recently. Today, a good number of commercial enterprises are adopting some aspects of the committee system. A board of directors is, of course, a committee, but lower down the management chain, committees deliberate on matters that were previously decided by one business executive.

As the modern business environment constantly changes, this type of organisation can be very useful. It is a way to utilise expertise and talents, held by workers from a broad spectrum of the organisation. It can also promote worker participation in management decisions, especially in matters directly concerning workers.



However, it is quite impossible for an organisation to be managed entirely by committees. Therefore, some other form of organisation such as pure line and staff are required where individuals at various supervisory levels carry out committee decisions.

Committee organisations promote full discussion on problems in order to find the solutions. Because committee members are drawn from different functional areas, more than one point of view is considered. Any decision made by the committee has a wider ownership. This can make the implementation of decisions easier.

However, because of the lengthy discussions involved, committees are slow in reaching decisions. Also, since a committee makes decisions, no individual member will be held accountable for any bad outcomes.

Informal groupings

Formal organisational patterns are based on the work to be done and how it fits into a formal organisational structure. Workers are engaged according to the tasks to be performed. The primary concern of any organisational pattern is to show how organisational goals are to be achieved. No attention is paid to the personal, social and emotional needs of the workers.

The less rigid social structure of society is reflected in the workers' attitudes at the work place. Workers still find time to socialise informally at the workplace. Some socialisation can become organised with a structure to follow. Social scientists have studied and termed it as an informal or organic organisation. They further argue that a worker's main interest lies in earning a living. As a result, workers are less interested in the success of the employer's economic goals.

To this extent the aims of an organisation and those of the individual worker sometimes conflict. Sociologists have discovered that workers will form informal groups to support themselves in achieving their goals.

Informal groups are formed on the basis of work skills, common social, sporting or other interests outside the formal organisational structure. As in all groupings, natural leaders will emerge. Such informal leaders may emerge, possibly from superior work knowledge or social skills. Their superior knowledge or achievements in areas such as sporting may make them become leaders of informal groups.

Through these informal groups, the members may have opportunities to form personal relationships, denied under the formal system. This often enables workers to achieve personal satisfaction in the work place. Furthermore, a feeling of security and emotional support is provided for workers by informal groups.

The informal structure can affect an organisation which may or may not be beneficial. Management should always be aware of the existence and growth of any informal groups within its organisation. If management refuses to recognise them, workers can feel isolated or neglected. Because such informal organisations take place outside the work-place, it is extremely difficult for management to exercise any influence on it. However, careful use of the informal lines of communication can help to check and continue to influence members of such groups.



11.2.4.4 Organisational Structure – SWOT

A SWOT analysis covers the *strengths* and *weaknesses* of a business and identifies *opportunities* and *threats* present in a business environment. Strengths and weaknesses always relate to the internal business environment. It may involve the market share, the quality aspects of resources such as workers, location, finances and competition.

Some business planners make the mistake of deliberately leaving out weaknesses, fearing that their plan might be rejected by banks and other parties. This is not a good practice as it gives a false impression. Weaknesses must be identified and included in the analysis.

Opportunities and threats are linked to the external business environment. Opportunities may relate to the availability of new technology, market expansion, product development and the general outlook of the economy.

Threats are usually related to competition, economic conditions and other natural or man-made situations. Threats can affect the business in the long run. Some threats are easier to identify than others. A deliberate attempt to leave out threats to give a good picture, will not do the business plan any good.

| | Helpful (for organisation's objectives) | Harmful (for organisation's objectives) |
|----------------------|--|---|
| Internal Environment | STRENGTHS 1 _____ 2 _____ 3 _____ 4 _____ | WEAKNESSES 1 _____ 2 _____ 3 _____ 4 _____ |
| External Environment | OPPORTUNITIES 1 _____ 2 _____ 3 _____ 4 _____ | THREATS 1 _____ 2 _____ 3 _____ 4 _____ |

Figure 2.6. SWOT Matrix.

Source: Grade 11 Business Studies -2004.

Figure 2.6 presents a 2X2 matrix that has Opportunities and Threats (coming from external environmental analysis) on the horizontal axis and Strengths and Weaknesses (derived from internal appraisal) on the vertical axis. The matrix has four (4) cells: SO (suggesting the use of strengths as a competitive advantage to exploit opportunities, WO (identifying weaknesses that need to be remedied before exploiting opportunities, ST (enforcing strengths as defenses against threats), and WT (anticipating and preventing threats, and taking actions to reduce damage if they happen).



A SWOT analysis will enable business owners and managers to determine the best or appropriate business structure. After all, a business structure is influenced by many factors; most of which come from the internal and external environments.

In the next section we shall see the main elements of the business environments; internal and external environments. The structure of a business is often shaped by the strengths, weaknesses, opportunities and threats present in both the internal and external environments. For example, a business whose strength lies in its unique product, will consider a strong production and sales team to take the product to the market. However, its threat may be present in the possibility of a rival business, copying its product and becoming a direct competitor. So the business, in this example, should develop a structure that will prevent a competitor from copying its product, while at the same time, promote the product to its target market.

The Business Environment

All businesses operate in two distinct environments as shown in figure 2.7 below. These are the internal and external environments. These environments influence businesses in many ways. Likewise, businesses also influence these environments. Some components of the business environment remain constant while others change over time.

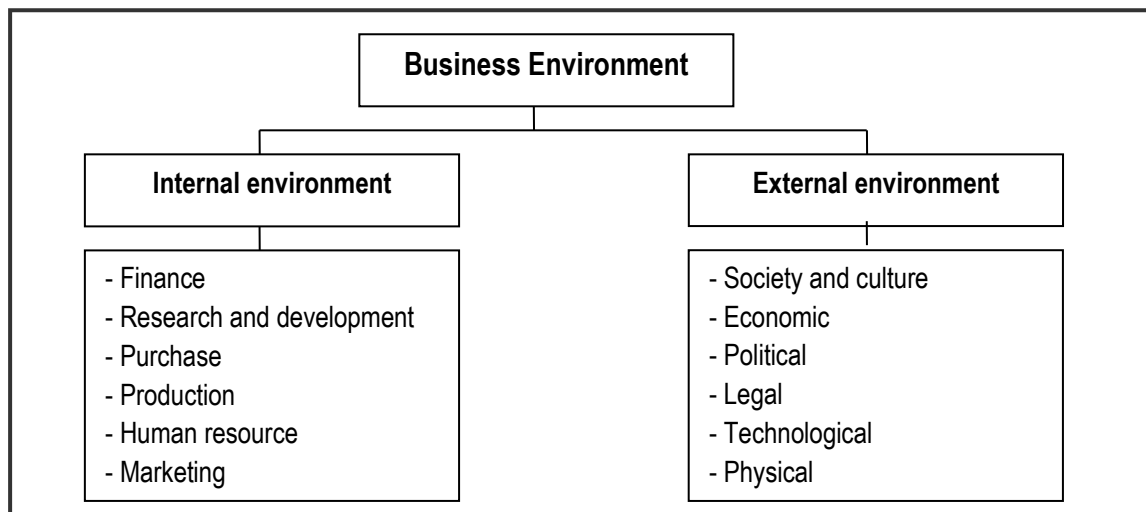


Figure 2.7. Business environments.

Source: Grade 11 Business Studies -2004.



11.2.4.5 Internal Environment of Organisations

This environment typically involves finance, purchasing, production and research and development (R&D).

Finance

The role of finance in every organisation is vital. It is concerned with the most important business asset – money. The finance section of the business sets budgets early in the year with input from all the divisions or the sections. Successful implementation of the budget depends on all sections sticking to it. It requires hard evidence to justify any expenditure. It also expects pricing to cover costs and to contribute to profit. Big businesses have designated finance officers to deal with financial matters. However, in small businesses the owner takes care of this function.

Purchasing

The purchasing function ensures that raw materials are brought in on time for production to take place. Its main focus is on economic purchase quantities, standardisation, the price of materials and purchase frequency. It faces the challenge of purchasing the right quantity of raw materials, at the right price and from the right suppliers. Such coordination will help the production to take place continuously.

The rise of relationship marketing and the increasing acceptance of just-in-time (JIT) systems mean that marketing and purchasing are now working more closely than ever, in building long-term, flexible relationships with the suppliers.

Production

The production department takes care of the transformation process. Raw materials are used to produce the outputs of the organisation. The production function depends on the effective coordination of purchasing, marketing and finance functions.

Quality assurance and cost control both become priorities for the production department. Quality makes the product attractive to customers, while cost ultimately determines the selling price for the products of the organisation. That is why the cost control and quality assurance are important parts of any production activity.

Sometimes, production can clash with other functions, especially marketing. It may be in production's interests to operate long, large production runs with as few variations on the product as possible. Marketing has a greater sense of urgency, a greater demand for flexibility and prefers short production runs to serve market needs quickly. This conflict will ultimately be settled, on the basis of what customers demand and expect, not what the organisation wants to do.

Research and development

Research and development (R&D) is important for the long term business survival. It is the means through which, new products are developed and existing products are modified to suit changing customer needs. The R&D function requires effective market research, competent staff, sufficient funding and a willing management. The marketing function must work closely with the R&D team to develop products that customers want.



If a new product will have to be developed from scratch, then the R&D team needs enough time on it. Sometimes, the marketing team will want the new product available as soon as possible, for fear of competitors launching their version first. Being first in the marketplace, can allow the business to gain a greater market share. It can also set prices freely, before the effects of competition can lead to a downward pressure on prices. However, the launching of a new product must fit in with the R&D team's schedule.



11.2.4.6 External Environment of Organisations

This environment is made up of the society and culture, economic, legal, political, physical and technological environments.

Society and Culture

The wants of individuals and families change as tastes, preferences and life styles change. These trends reflect the changes taking place in every society. Businesses need to understand the social environment, its changes and respond effectively.

Over the last ten years or so, in Papua New Guinea, urban households have experienced some significant amount of change. For example, a small but increasing number of urban households have dual incomes. Such households generally have a greater purchasing power, with slightly different consumption patterns than single income households.

Each year, an increasing number of people are migrating to urban centres, in search for easy access to goods and services. This has resulted in the rapid population increase in the urban areas. As the urban population grows, the demand for goods and services also increases. This places a strain on the production process and resources. It also presents new opportunities for businesses to expand in line with the market.

Papua New Guinea's population is around seven million today. In general, the population of Papua New Guinea is growing at a faster rate than that of other countries in the South Pacific. This growing population needs goods and services. A bigger population will place more demand on goods and services in the country. This is good for the economy as the level of economic activity will increase in direct proportion to the population increase.

However, the productive capacity of the PNG economy may not be growing as fast as the population. Also, nature is not creating new land to cater for the ever increasing population. So in the face of a rapidly growing population, the PNG society may be forced to make trade-offs in land use such as agriculture for roads, schools, hospitals, housing, forest preservation, mining, tourism facilities and recreation.

Within the national population, there are notable patterns appearing. For example, the current population trend in PNG is such that there are twice as many young people as there are older people in the national population mix. This presents a new trend of consumption among old and young consumers. At the same time, a growing youth population will soon place extra strain on the existing services and resources.

The consumption behaviour of people in different age brackets varies according to their age and related lifestyles. This poses a marketing challenge for businesses. Usually, small businesses have difficulty understanding these challenges due to the lack of information.

The economic environment

Businesses are affected by the general economic climate and the business cycle of the economy at any given time. A business cycle consists of alternating periods of expansion and contraction of economic activity as shown in Figure 2.8 on the next page. It affects the level of production, employment, interest rate, income levels and tax. A business cycle has three stages; prosperity, recession, and recovery. Businesses usually plan their activities in response to the prevailing stage of the business cycle.

During the periods of prosperity, profit levels, consumer confidence, capital investments and employment, are high. Consumers confidently go about purchasing more goods and services. Businesses experience booms in sales and may even introduce new products. They also increase their advertising and marketing activities.

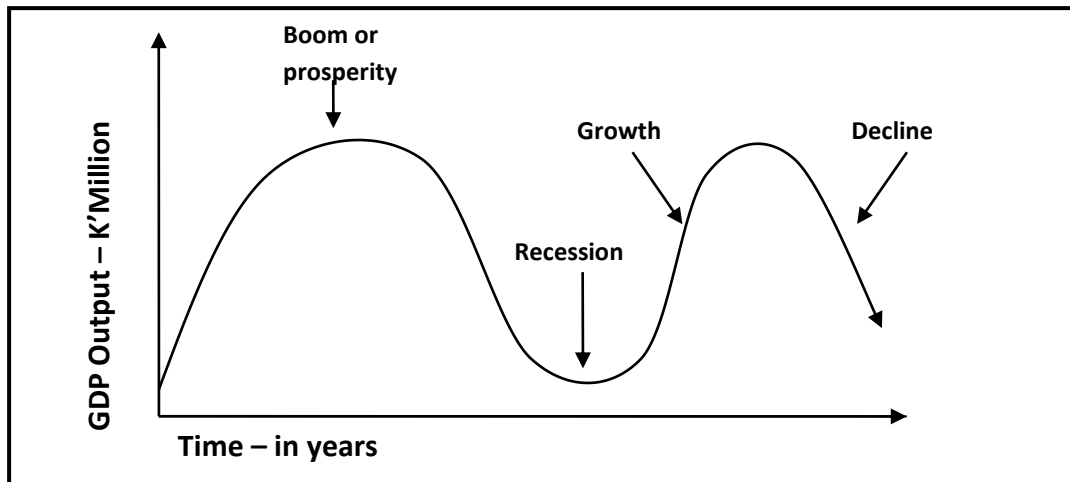


Figure 2.8. Typical economic cycle.

Source: Grade 11 Business Studies -2004.

During a recession, many businesses tend to cut or control their spending. Consumers also begin to change their spending habits and may become more thrifty or careful. As economic activity declines and unemployment rises, consumers' buying power declines also. Overall, the level of economic activity is very low in the economy.

During a recovery period business activity picks up. Consumers slowly regain their confidence and begin to increase their spending on purchases. Some slowly buy luxury items as income continues to increase. Businesses begin to increase their advertising and change their promotional and pricing techniques. Greater production may occur to meet the increasing market demand for certain products.

The legal and political environment

Business owners must conform to the limitations and demands imposed by the political environment which includes: pressure groups, the government, and its regulatory bodies. Every business, large or small, must deal with the various aspects of government regulations and control. Some pressure groups operating in PNG, have been successful in bringing about changes to business practices and the marketing activities in PNG. For example, campaigns led by women and church groups have led to the ban of alcohol in some provinces.

In line with global trends, many Papua New Guineans are becoming concerned about the environment. The awareness conducted by pressure groups such as Green Peace and Research and Conservation Foundation (RCF) as well as World Wildlife Fund (WWF) have already influenced many consumers in the country. As a result they have become environmentally conscious. On a larger scale, global concerns for the greenhouse effect have generated consumer interest in environmental or 'green issues'.



11.2.4.7 Technology in Organisations

The technological environment

Technology is simply the application of science to develop new methods of production. New technology is continuously being invented and applied in production, making older technology redundant or out of use.

The world started to grow smaller in the 19th century (1800s), due to improvements in transport and communications, and this has accelerated or speeded up in the 20th century (1900s). The introduction of jet aircrafts, Internet and satellite technology ability to handle mass communication, has completely changed the world. In recent times the computer and the microchip have transformed information processing and communications. Our world is now getting smaller due to technological changes.

The arrival of computers, fax machines, satellite dishes, mobile phones, and new machinery has changed activities such as packaging, advertising, communication, and promotion and pricing. Supermarkets and banks, for example, have adopted new technological strategies in order to keep up with current trends. Supermarkets now use scanning machines and banks encourage customers to use automatic telling machines (ATM).

Technological changes affect various aspects of business operations. It eventually affects their competitiveness in the marketplace. Future developments in technology will continue to challenge production, management and marketing.

Information technology (IT) is the driving force behind globalization today and is at the heart of modern organisations. Advances in IT allow an increased flow of ideas and information across borders, so customers learn about overseas made goods. Global communication systems make it possible for businesses to coordinate the design, production, and distribution systems worldwide. The Internet, mobile phones, interactive video and electronic funds transfer, are helping to open up the global market place at an alarmingly faster pace.

Emerging technology

An **emerging technology** refers to a new technological field which has the potential to significantly change our society. Popular emerging technologies can be conveniently placed under: *educational technology, information technology, nanotechnology, biotechnology, cognitive science, robotics and artificial intelligence.*

New technological fields may result from the convergence of different technology and systems towards similar goals. Convergence enables previously separate technologies such as voice, data and video, to share resource and interact with each other. Emerging technologies represent progressive developments for competitive advantage.

Emerging and converging technologies hold the potential for organisations to increase growth and reduce costs. But not every solution will be the right fit as organisations face challenges of constant economic downturns, increased competition and profitability pressures.



Types of emerging technologies

We see three emerging technologies that stand out from the rest: mobility, social media and external delivery of high-volume, low-touch business processes. These technologies help move forward-thinking organisations to a more collaborative, flexible and global approach. We can call that the *'future of work'*.

Mobility and social media

Mobile communications are fast becoming the norm. With more people using mobile devices in PNG, on-the-go internet access is expected to overtake desktop internet use by 2015 and beyond. The number of people accessing the internet through their mobile phones is all the time increasing. Users are able to access information as well as upload video and photos from remote locations.

Mobile devices such as mobile phones, help many businesses to link up with their customers easily. An increasing number of people in PNG are making online purchases of expensive items such as cars. This reduces cost and enables quicker dispatch of items from overseas to PNG. Customers are able to by-pass many bureaucratic red-tapes by purchasing online. Japanese used cars are a good example of an online business that is now growing in PNG.

Social media and marketing

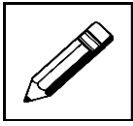
Social media opens new avenues to save money and build brand awareness and market share. To stay competitive, businesses are increasing their marketing budgets. Most of the cost is used up by advertising. But as traditional media costs climb, businesses continually look for low-cost marketing ways to keep down their expenses. Social media fits the bill. Marketers view social campaigns as more affordable than just advertising by radio or television. Social media such as face book, goggle or yahoo therefore are effective ways of marketing.

According to an online survey by Facebook in 2013, the average Facebook user creates 90 pieces of new content each month, and Facebook users share more than 30 billion pieces of content daily. When you take into account YouTube, Twitter and other social networks, you can see the enormous potential for business marketing.

High-volume, low cost processes

Using mobile editing applications, employees can edit documents while they are out of office, and save them onto the network using a file synchronization service. Using mobile devices, employees can also make voice or video calls, click to chat from the contact directory and convert a chat into a fully-fledged meeting. These procedures are becoming global practices.

Turn to page 46 to do activity 2.4.



Learning Activity 11.2.4: Complete the activities given below.

1. What is an organisation?

2. What is the relationship between these two terms: 'power' and 'authority'?

3. State five (5) similarities and differences between a government school and a business organisation. Show your answer in a table form.

| Similarities | Differences |
|------------------|------------------|
| | |

4. Differentiate between a 'line' and 'staff' organisation.

5. How does R&D (research and development) help a business become highly competitive?

6. Is a growing population of PNG good for business? Explain.

7. How does an economic downturn affect businesses?

NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



11.2.5 The Nature of Management

In this unit, you will learn about the roles of management and identify and explain managerial functions. You will also learn about the level of management and the managerial skills and management theories and styles.



Learning Outcomes;

On successful completion of this module, students will be able to:

- Define management, differentiate between efficiency and effectiveness and identify and explain the three roles of management.
 - Identify and explain the purpose and importance of the managerial functions.
 - Define level of management, identify and explain level of features of management.
 - Define management skills, list and explain the three types of managerial skills, its purpose and importance.
 - Identify and discuss the different management theories, their purpose and importance. Also discuss the advantages and disadvantages of management styles.
-



Introduction

Management

Management is an important concept which concerns every organisation. It is widely believed that the difference between an organisational success and failure, is management. A working definition of management together with the different types of management styles is presented here. You will also learn the basic functions and elements of management.

Definition of Management

Management is a diverse field involving many different disciplines. Therefore, a variety of definitions are offered by different authors. But for our purpose, management can be defined as:

Management is planning, organising, leading and controlling human and material resources within an organisation to achieve set goals and objectives.

Management is a process that involves different elements. It is an act of organising humans and other resources to achieve organisational goals. In other words, organisational goals and objectives are achieved through management and not by the managers themselves. So management is a skill quite outside of any other technical areas or knowledge, managers may possess.

Management is also considered as a factor of production along with machines, materials and money. Without it, production will not take place effectively. The size of management can range from one person in a small firm to several hundreds of people in large multinational companies.



11.2.5.1 Introduction to Nature and Roles of Management

Management has become widely recognised only in this century as a separate element of business. But the subject is as old as human civilisation. Well known management theorists such as Frederick W. Taylor, Mary Parker Follet, Henry Mintzberg and Henri Fayol have widened the field of management through their work. Henri Fayol, in particular, is better known as the father of modern management.

The need to recognise management as a distinct area resulted from the increasing size of businesses in the Western world. There was a period of time when businesses were managed personally by the owners. Thus, there were only two divisions - capital and labour. However, investment began to increase as new machines and production systems were developed. The size of some investment requirements were beyond the capacity of private individuals. This led to the formation of numerous joint stock companies.

This inevitable increase in investment and business structure required some change in business ownership too. It led to the creation of a three-divisional arrangement – capital, management and labour. Capital contributors always demand a good return on their investment. Workers, on the other hand are rewarded through wages and salaries. So managers are responsible for the daily running of the corporation or firm. They are provided attractive benefits by the owners to bring about good business results.



11.2.5.2 Managerial Functions

The art of management is subdivided into the four elements as shown in Figure 2.9. These elements were first developed and popularised by Henri Fayol.

Planning

Planning is the element that links the policies, goals and objectives of an organisation to its operations. Policies, goals and objectives are set by the board of directors in large organisations or the owners/managers of small organisations. Managers plan the possible course of action needed to achieve business goals and objectives.

FUNCTIONS OF MANAGEMENT

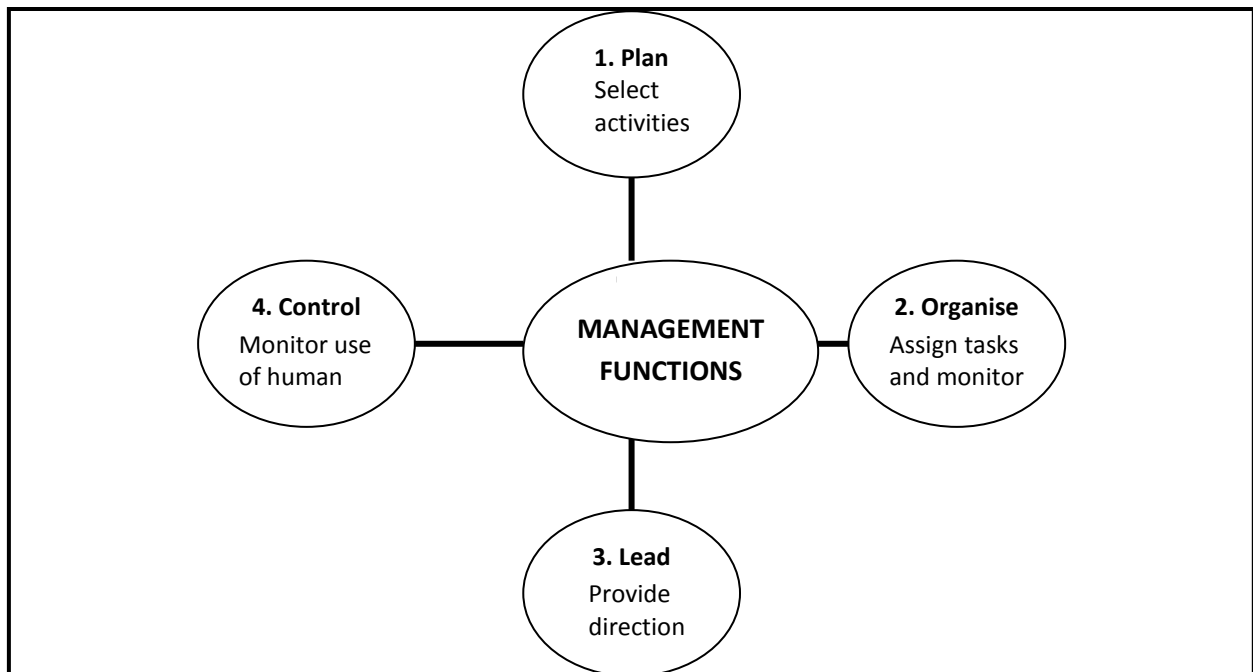


Figure 2.9: Elements of management.

Source: Grade 11 Business Studies -2004.

Planning is therefore, done on the basis of likely events and performances. This is called forecasting. Both the internal and external environments are carefully studied when planning. Planning can be for both the short-term as well as the long-term. It is impossible to accurately predict the future. Therefore, past events as well as likely events in the future, enable the manager to forecast the future. For existing organisations, the past performance and results can be analysed and applied in forecasting.

External factors likely to affect planning are mainly the economic and political environments. These are the most difficult areas to predict. Again, history is the best guide. It is necessary that all plans have an element of flexibility. This will allow for changes as and when the need arises.

Long-term plans require long-term forecasting. That means, forecasting must cover a period longer than two years. Long term plans are less accurate. Changes and adjustments can be made when the need arises.



1. Planning

Planning is the first of the four functions of management, which sets the pace for other functions to follow suit. Every organisation needs a plan to function. There are three types of plans – short-term, medium-term and long-term. The job of the manager is to develop these different types of plans. Once plans are in place, organising, leading and controlling functions can be exercised.

2. Organising

Organising is concerned with all the elements of production. It creates a framework, for resources to be arranged logically so that production can take place. Within this framework all resources are brought together to achieve set objectives and goals. Key resources such as workers, equipment, materials and factories are prepared for further progress.

Management must determine what work has to be done, how it is to be done and who is to do it. The function of organising is achieved when these roles or duties are performed. It also involves the matching of all effort required in order to achieve organisational objectives.

The need for effective organisation is important in all types of organisation. Effective organisation among different functions, will lead to greater success. For example, the launching of a new product will need an advertising campaign, supported by the right sales team. The success of the launch will also depend on manufacturing, so that production agrees with marketing requirements. Similarly, the necessary labour, the materials and the finances must be provided on time so that the new product is ready in time for launching. It is clear that all these activities require good organising.

The following are elements of organising.

- **Unity of Command Principle**

The effectiveness of an organisation is increased when one person is made responsible to direct all organisational activities. This is sometimes referred to as unity of command. Unity of command is a principle of organising. When unity of command is absent, confusion can arise and organisational failure can result. Command involves not only the giving of direct instructions, but also persuasion and consultation.

The ultimate responsibility for success lies with the head of the organisation. Delegation of authority and responsibility to subordinates is done in order to achieve positive results. There exists a formal chain of command whereby, each level of delegated authority is accountable to the superiors above.

- **Principle of Delegation**

No manager can possibly perform all the functions required in a complex organisation. Therefore, it is necessary to share some of the work load with subordinates. This is referred to as the principle of delegation, which is part of the organising function of management. Delegation often starts with the manager and flows down the command chain.

A sole trader, running a trade store will initially do his own buying, selling, accounting and providing security. As his business grows, he will find that he cannot perform all of these



functions by himself. At some point, he will have to delegate one or two of his roles to other staff to perform. This process will continue on as the business expands until each function will be the responsibility of a departmental head. Further growth will then cause each departmental head to delegate some work to subordinates.

The main purpose of delegation, therefore, is to share the workload and achieve better results. Delegation is the act of appointing someone, to act on the delegator's behalf. The limits of the person given the authority and duties must be clearly defined and understood. The chosen delegate must have the required technical ability and experience.

- **Span of control**

Span of control is yet another principle of organising. Span of control refers to the limits of one's delegated authority. It mostly refers to the number of persons a manager or supervisor can effectively control. The span of control narrows as it reaches the higher levels of management.

There is no specific number of subordinates quoted as the ideal or normal. It really depends on the size of the organisation and the style of management in use.

3. Leading

Some people are of the opinion that leadership is the same thing as management. But they are two distinctively different things. Leadership is really an element of management. It is natural for any human group to operate under a leader, from which the group may take directions or commands. The leader influences others to act in ways that will achieve the organisational goals.

As a leader, a manager must select goals and objectives of an organisation. He or she must decide what is to be done and motivate others to do it. Leaders know which direction they are taking their organisations and how to get there. With this knowledge, they motivate their followers to achieve the set goals and objectives. Motivating other people to get things done is the greatest strength of leaders.

Leaders also provide guidance. Leading requires a forward-looking approach and needs followers to share common goals. The status of leadership is determined by the willingness of followers to be led.

Leadership also involves authority and responsibility, in terms of deciding the way ahead and being held responsible for the outcomes of decisions made. Leaders take charge and decide what is to be done next. They also make sure that decisions are communicated to their followers in the most convincing way.

Leadership is an important element of management in a constantly changing social, economic, political and technological environment. Controlling and organising becomes necessary in a stable environment.

4. Control

The function of control involves monitoring and adjusting of the use of resources. Proper control systems enable an organisation to stay on course to achieve its stated or selected aims and objectives. For control to be effective, standards must be set up to measure



performance. Any deviation from the standards can be identified and corrected easily. Without performance standards, control is difficult to exercise.

Performance standards are established by the management, according to the organisational requirements. Quantity, quality and time are the common standards used by most organisations. It is the management's responsibility to set these standards and ensure that they are met. Instruments such as work study, organisation and method, internal check, inspection departments and sales targets, can be used to check if standards are met.

11.2.5.3 Levels of Management and Managerial Skills

Most organisations would have various levels of management, usually; top, middle and lower management levels. Some organisations have a flatter management structure while others have tall structures. A tall structure is characterised by many levels of management – from the top to the lower levels. A flat structure would usually have a top level manager and a few line managers, followed by the workers. Traditionally, large organisations had tall organisational structures. But this is changing today as more organisations prefer the flat organisation structure, to better respond to and adapt quickly to changing customer requirements and market conditions.

In general, nearly all structures have a pyramid shape – with a relatively small number of senior managers at the top, a larger number of middle managers at the centre and an even larger group of junior managers. The majority of employees are found at the bottom of the organisational pyramid. Figure 2.10 is a typical pyramid shape of an organisation.

A typical junior manager would be a supervisor of a unit or a senior member of a team. Junior managers work very closely at the operational level and may have titles such as foreman, team leader, coordinator, operational manager or supervisor. Their role is to coordinate the work of the ordinary employees. They also have direct responsibility over machinery, tools and materials. They derive their authority from the middle and top managers.

Middle managers usually oversee the work of junior managers. They also have to report to the senior management. They will have wider responsibilities than the supervisors who report to them. Middle level managers spend more time on management functions than on operational aspects. They may step into an operational role occasionally, but only in the areas of their expertise and knowledge.

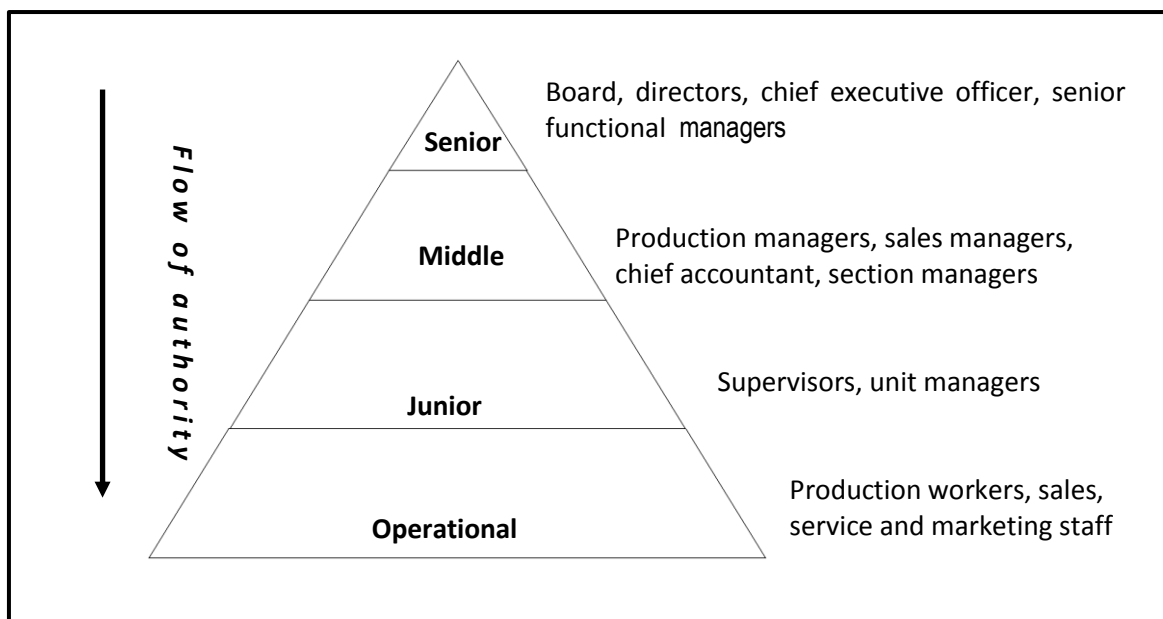


Figure 2.10: Levels of management.

Source: Grade 11 Business Studies -2004.



Senior managers are the executives, at the highest level of the organisation. They direct and coordinate major activities of the organisation. Senior managers are responsible for the overall planning, organising, directing, controlling, and leadership in the organisation. Above all, they are responsible for the overall success (or failure) of the organisation.

Management skills

Managers need to possess the necessary management styles and skills, in order to perform their duties. Some of them may be considered more important than others, but they all contribute to management effectiveness. Figure 2.11 presents the four key skills needed by any manager.

Managers need to be multi-skilled because their job is complex. Their skills should include conceptual skills which involve planning and thinking. The list should also include the ability to see the organisation as a whole and the relationship of its various parts. They need to understand how, their role fits into the total organisation.

As managers get promoted to senior positions, they must develop conceptual and planning skills. They must also have people skills or social skills, to be able to better understand their subordinates, customers and other stakeholders.

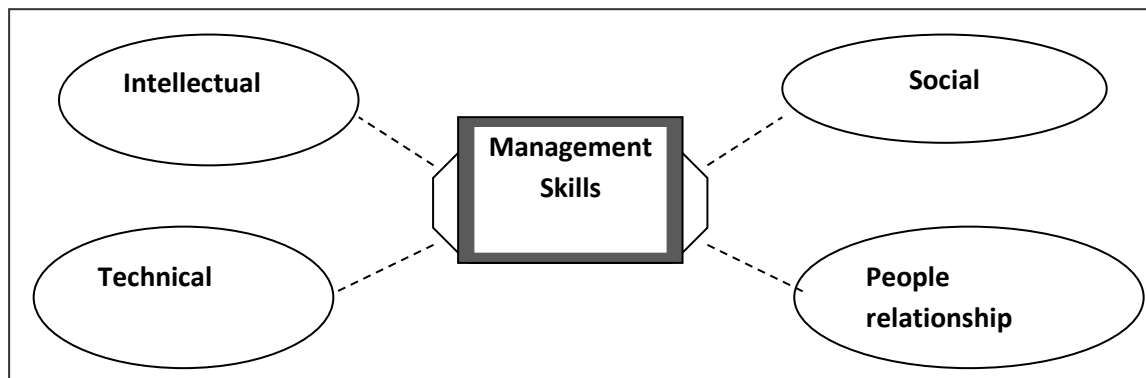


Figure 2.11: Key management skills.

Source: Grade 11 Business Studies -2004.

Social Personal Relations and Technical skills

In organising and controlling people, the ability to work with people is an essential skill. People management skills are needed to motivate and communicate with other people. This involves distributing work, resolving conflicts, coaching and encouraging workers. Managers have to relate to various groups including; employers, colleagues, senior managers, customers, suppliers and members of the community. Social skills are needed to encourage teamwork and provide motivation, so that organisational objectives can be achieved.

Managers also need to possess technical skills. Technical skill refers to the talent or expertise in the performance of specific tasks, such as product engineering, marketing and finance. These skills include specialised knowledge, analytic ability and competence in solving problems. Such skills are important for junior and middle managers. Most managers have to prove themselves in a technical area, before they are given an opportunity to practice their conceptual and human skills. Technical skills are therefore the entry-level requirements for executive positions. A manager can have the best training, a sharp and



analytical mind and smart ideas, but will not necessarily be a successful manager. Technical skills are therefore, important for any manager at the entry level.

Intellectual skills

Intellectual or thinking skill is vital for all managers. Intelligence is often measured by I.Q. (intelligence quotient). A certain level of intelligence is needed by any manager to be effective in their jobs. A manager should have relevant knowledge of his/her profession and of the organisation. A manager should also have sufficient knowledge of the people working under him or her.

It was claimed by management theorists and experts, that all effective managers have one thing in common – ‘emotional intelligence’. They identified five components of emotional intelligence as summarised in Table 2.4 below.

| Component | Definition | Characteristics |
|-----------------|---|--|
| Self-awareness | An understanding of one’s own moods and their effects on others. | Self-confidence, realistic self-assessment. |
| Self-regulation | The ability to control impulses and to think before acting. | Integrity, open to change. |
| Motivation | A propensity to pursue goals with energy and persistence. | Strong drive to succeed, optimism and commitment |
| Empathy | The ability to understand people. | Expertise in retaining talent, service to customers, cross-cultural sensitivity. |
| Social skills | Proficiency in managing relationships and in negotiating common ground. | Effectiveness in leading change and team building. |

Table 2.4: Components of emotional intelligence.
Source: Grade 11 Business Studies -2004.



11.2.5.4 Management Theories and Styles

Theories

A theory is a statement, arising out of research into past actions and ideas. This statement predicts which actions will lead to what results and why. A military general, for example, plans and orders an attack on the enemy, on the basis of a prediction of what will happen. He will plan and organise his campaign against the enemy according to what his expected results are.

Good theories lead to good predictions. Gravity is a theory, or a statement of cause and effect which makes it possible to predict that a person, who steps off a cliff will fall. This theory does not need to be proven because we know that it is true based on past experiences. Theories help us to identify and understand the cause and effect relationships. For example, knowledge about the theory of gravity will help us avoid walking on the edge of a cliff.

Good management theories are useful, in order to understand why people make particular decisions. Management theories have been important since the Industrial Revolution. The development of new machines and the uneven distribution of raw materials and workers gave rise to management theories. Also, the move from a self-sufficient economy to one based on division of labour, created a need for organisation and control.

Adam Smith was an early economist, who developed an economic theory based on the factors of production. His book titled '*the Wealth of Nations*' (1776), emphasised the relationship between the separate elements in the production of goods and services.

The Industrial Revolution placed a greater need for a systematic approach to management. But, throughout history, every action that managers have taken and every plan they have developed, have been based on some theory. Some of these theories were formalised through the work of modern management thinkers and practitioners.

Scientific management

Scientific management was developed between 1856 –1915, when skilled workers were in short supply in the USA. In order to meet increased demand, productivity needed to be expanded by increasing the efficiency of the available workers.

Frederick W. Taylor, a management consultant, analysed each job by breaking them down into their component parts. He then designed the quickest and best methods of operation for each part. By doing this, he was able to establish how much, workers can achieve with the time, equipment and materials available. Workers pay was also tied in with their performance levels. Scientific management is also known as 'Taylorism'. Early U.S. companies such as Ford, used Taylor's theories to mass-produce Model T cars successfully.

Today, this process might be referred to as a form of performance-based pay system. This process developed into a 'differential rate system', based on greater pay for greater productivity. Taylor argued that profits and productivity increase would result, leading to further business expansion and stable employment for workers. However, Taylor overlooked the social and emotional aspects of the workers.



Administrative management

Henri Fayol was a contemporary of Taylor from 1841 – 1925. Unlike Taylor, he was interested in the management of large groups of people, rather than organisational functions. Fayol believed that ‘scientific forecasting’ and proper methods of management would lead to satisfactory results. He insisted that management was a skill like any other, and that managers were not born but made. It could be learnt, as long as the underlying principles were understood and a general theory of management formulated. This changed the views of management and formed the basis of many modern attitudes.

Fayol divided the business operations into units or elements, which he described as technical, commercial, financial, security, accounting and managerial. His primary focus was on the management of the operational areas. He defined the operational areas in terms of five functions;

- Planning
- Organising
- Directing
- Coordinating and
- Controlling.

Fayol’s five functions are still in use today. Because they are relevant, many organisations have adopted them and continue to use them today. It is therefore Fayol’s greatest contribution to modern management.

Behavioural/human approach

Elton Mayo was involved with other American researchers between 1930 and 1949, to find a link between the concepts ‘social man’ and ‘rational man’. He attempted to address what Taylor overlooked – the social and emotional aspects of workers.

Elton was involved with others in the famous ‘Hawthorne experiments’, which was an important study in human behaviour at the work place. The results of this experiment have influenced many management theorists and practitioners. It continues to influence modern management practices today.

The ‘Hawthorne experiments’ was intended to study the effects of changes in lighting, on the productivity of two groups of workers. The first, a ‘control group’, was exposed to a consistently well-lit workplace, while a second, the ‘experiment group’, worked under varied lighting conditions. The results of this experiment were not conclusive (not sufficient to draw up a conclusion).

The team however believed that productivity improvements, were a result of many factors, including financial incentives, working conditions and other social factors. They believed that a complex chain of attitudes, influenced workers behaviour at the workplace.

Based on the ‘Hawthorne effect’, we can conclude that;

- employees work harder when they believe that management is concerned about their welfare.



- workers are motivated when they receive special attention from management.
- the social environment of workers and their informal work groups influence productivity and
- the 'social man' is motivated by social needs and respond better to workgroup pressures than management control.

The Hawthorne experiments have influenced modern management and led to the development of people-management skills. Attention is now given to working conditions and motivation, since workers perform better when they receive special attention.

Systems or contingency approach

This theory rests on the belief that the organisation is a system with interrelated parts. The way the separate parts, interrelate defines the system. Integration depends on shared norms, values and beliefs, rather than under the command of a superior. This approach recognises that managers are dealing with complicated interactions in an unstable and competitive business environment.

Managers recognise that, there is no one way to deal with all circumstances. Systems and contingency approaches have resulted in improved practices and significant developments in organisational design and leadership.

In order to be very responsive to the ever-changing environment, organisations have cut management layers to create 'flat' or 'flatter' organisations. A flat organisation has few layers. The objective is to create a leaner, more flexible organisation, which can respond better to the challenges of change and increased competition.

These changes and challenges have increased as a result of the following factors;

- the generally increased rate of change.
- customers are becoming very demanding.
- more markets are opening up as a result of globalisation and
- increased environmental and social pressures.

Many organisations have turned to the flat organisation, in order to maximise the use of staff. Flat organisations require more staff with broad-based skills. Modern managers in flat organisations must possess the following skills or characters;

- possess a broad knowledge on the organisations' goals.
- be flexible and adapt quickly to changes.
- possess the ability to communicate effectively.
- have a clear understanding of the business environment.
- assume greater responsibility.
- contribute to team work.
- be aware of ethics and values.
- and be able to handle uncertainty and surprises.

Management styles

A management style is the behavior displayed by a manager, as he or she performs his or her functions and duties. A manager's style reflects personality and value systems, nature of workers and nature of the internal environment.

Figure 2.12 presents the common management styles practised throughout the world today. Many managers prefer a combination of several styles, as required by any given circumstances. However, it is their most preferred style of management which defines their managerial character.

The autocratic manager makes all the decisions. Workers only receive decisions and act on them. Workers' input is never invited by management. They remain passive and take orders from the manager all the time.

The coercive manager requires immediate obedience in order to achieve results. Decisions are made at the top with little consideration for other peoples' ideas. Workers' initiative is suppressed most times. Managers with this style tend not to motivate workers. Workers are left to wonder if their job ever matters at all.

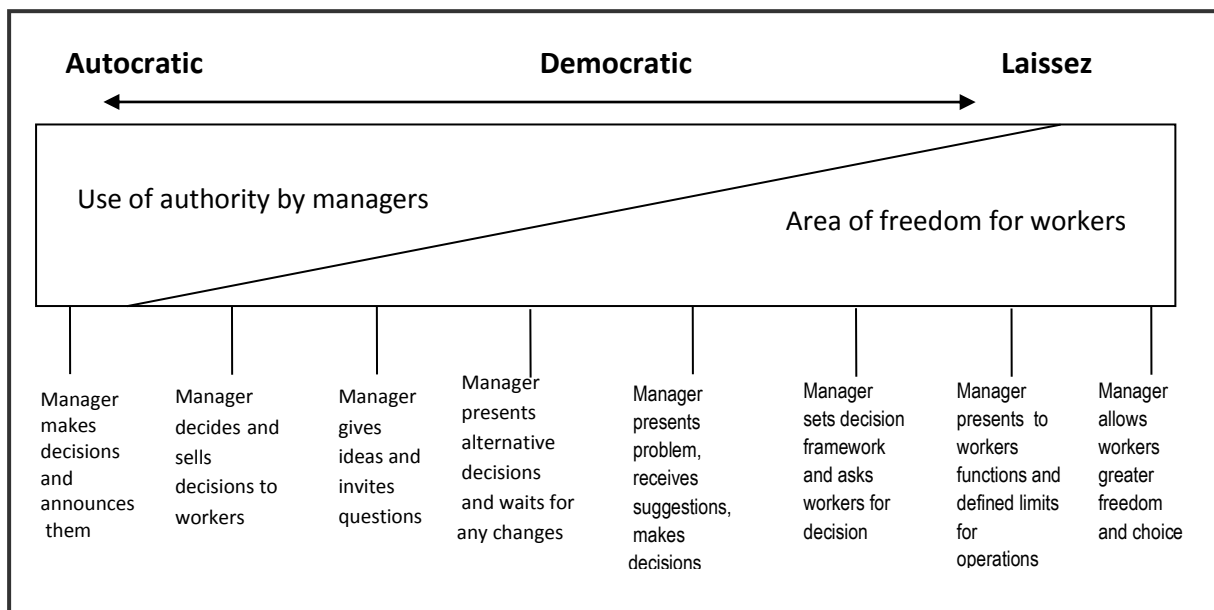


Figure 2.12: Management styles.

Source: Grade 11 Business Studies -2004.

The authoritative manager can mobilise people towards a new direction, through a clear vision for the organisation. The manager makes it clear to the people, how their work fits into the organisational strategy. Workers' commitment towards the organisation increases because they know that their contribution is valued. The standards for success and the rewards are clear. Initiative and innovation can also be achieved by workers. This style of management can be effective in many business situations.

The affiliative manager encourages people to create harmony and tries to keep employees happy. The objective is to create strong loyalty, improve communications and ideas sharing. It allows for innovation and risk taking and provides freedom for people, to carry out their



jobs in the way they think is most effective. This management style provides strong positive feedback and is highly motivating. It is particularly effective for team building. On its own, it can be seen as a relatively weak form of management. It can only be effective when a group of experts or a group of friends are working together. Otherwise, it needs to be combined with another style.

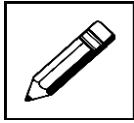
The democratic manager tries to forge consensus through participation. The manager builds trust by listening to people's ideas. He/she encourages people to take responsibility by contributing to decision-making. The main problem with this style is that, important decisions may be postponed if there is lack of consensus. It works well to generate fresh ideas and when confident and competent employees are involved. It can produce a very positive climate within an organisation and can provide a clear direction.

The pacesetter manager sets high performance standards for everyone. This style requires good performance from everyone. It is concerned with doing things better and faster. The problem with this style is that it can exhaust employees. People may become task-oriented and their initiatives are suppressed, as they try to do what the manager wants. This style works well when employees are self-motivated, competent and need little direction or organisation. Expert teams can work well with this style of management.

The coaching manager helps employees identify their strengths and weaknesses and encourages them to establish long-term development goals. Coaches rely on delegation and agree with employees about their role and responsibilities. They give employees challenging assignments and encourage initiative. This style focuses on personal development, rather than on immediate work-related tasks. It has a positive effect on an organisation because employees know that they are valued. This management style does not work well, when employees are resistant to learning or change. It will also fail if managers lack the talent to help employees.

The laissez-faire manager imposes very little or no control over the activities and behaviour of workers. Workers have greater freedom and act individually. This type of management can work best in some situations, but can create more problems when workers are not properly controlled. In fact, only few organisations do prosper under this style of management.

Effective managers switch between management styles at different times as required. Managers need to be sensitive to the impact they have on others and adjust their style in order to achieve the best results.



Learning Activity 11.2.5: Complete the activities given below.

-
1. How did Henri Fayol contribute to modern management?

 2. Explain the difference between 'leading' and 'controlling'.

 3. What was the main management problem that Frederic W. Taylor tried to address through his 'scientific management' theory?

 4. 'Managers are not born'. Explain what you understand by this statement.

 5. What kind of workers will respond well to the autocratic style of management, and why?

 6. How do coaching managers function?

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NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



11.2.6 Issues Affecting Business Organisations

This unit teaches you about HIV and Aids and Gender Issues in business organisations. People represent the workforce in organisations and sensitive issues dealing with their health and gender must be looked at closely. When people are discriminated, they will not contribute productively to the organisation. You will also learn about Ethics and Conservation and Environmental Issues in business organisations.



Learning Outcomes;

On successful completion of this module, students will be able to:

- Define HIV and Aids, identify its causes, discuss its negative aspect on businesses and identify the HIV and Aids Policy.
 - Define Gender, explain Gender Sensitivity and explain areas of business affected by Gender Sensitivity
 - Define Ethics with relation to businesses and identify and explain the Ethical and Social Issues in businesses.
 - Identify and explain legal aspects of business operations and business practices.
 - Identify and explain examples of a Social Responsibilities.
 - Define Conservation, identify and explain Conservation and Environmental Issues affecting business operations.
 - Identify some environmental laws.
-



Introduction

Businesses have always been faced with many issues arising from the internal and the external environments. These challenges can be local, global or a combination of both. Some of these issues also affect the wider society. As businesses continue their mission to operate profitably their progress is often challenged by these issues. When not managed well, some businesses can experience failure.

Here we look at the common issues that are challenging every business in the country. The main issues to be considered here include; HIV/AIDS, Gender Sensitivity, Environment and Conservation and Business Ethics. It is vital for all business owners and managers to be aware of these issues, affecting the development and progress of businesses.

11.2.6.1 HIV and AIDS

The effect of HIV/AIDS is devastating on every organisation globally. All countries are affected by this disease, though not at the same rate. Therefore, managers must become aware of its effects and develop policies and programs to effectively deal with it at the organisational level.

The International Labour Organisation (ILO) has a code of practice for HIV/AIDS at the workplace. It provides guidelines for organisations to develop policies and programs for HIV/AIDS in the workplace. As a result of this, managers are now required to observe the following directives:

- Non-discrimination – people with HIV/AIDS are entitled to the same rights, benefits and opportunities as those with other serious chronic illnesses.
- Fair employment – the organisation must not require HIV/AIDS screening as a condition for employment except under specific circumstances.
- Senior management commitment – the senior manager should endorse non-discriminatory employment practices and information about HIV/AIDS.
- Confidentiality – the organisation must at all times protect the employees' medical information about HIV/AIDS.
- Information and prevention – the organisation must always provide employees with sensitive, accurate and up-to-date information about risk reduction in their personal lives.

It is important for all businesses to develop their workplace HIV/AIDS policies, in line with the ILO code of practice. This policy should lay the standards of behaviour for all employees – whether infected or not. This policy should be aimed at two outcomes; firstly to prevent the spread of HIV/AIDS, and secondly, to protect the infected workers from discrimination. The policy should cover key areas of prevention, care and the protection of rights. The policy should also be shaped by local needs and conditions.



11.2.6.2 Gender Sensitivity

Gender Sensitivity is a phrase that has gained increased acceptance and use in recent years. Gender is preferred over sex because sex refers to the biological differences. Gender, on the other hand, describes the characteristics that a society or culture defines as feminine or masculine.

The global movement for Gender Equality has led to more participation from women as well as men. Many countries have in place policies on Gender Equality, making it compulsory for organisations to observe and apply them. Such changes have also led to an increased number of women filling management positions in organisations.

International experiences show that management styles of women are quite different from those of men. In general, women tend to provide a more participative, democratic and consultative style of management. Men, on the other hand, tend to be more directive and autocratic in their styles.

Recognising women as equal partners helps to remove cultural prejudices and barriers and allows women to realise their full potential. Recognising Gender Equality does not cost a lot to any organisation. But it can improve the organisational image and success.

Managers have a duty to actively promote gender and equality in their organisations. They must apply appropriate and Gender-Sensitive management styles. Promoting the use of gender-inclusive terms such as 'staff' instead of 'manpower' and 'supervisor' instead of 'foreman' is being Gender-Sensitive. Providing equal opportunities for promotion for all workers despite gender differences is another practical way to promote Gender Equality in organisations.

Policies such as equal employment opportunities and non-discrimination on the basis of gender can increase employment of women. Merit-based or performance-based promotion is a gender-friendly practice. Organisations must also have structured procedures in place to include women's point of view in the decision-making process. All of these changes demand managers to be sensitive to Gender Issues at the workplace.



11.2.6.3 Ethics

Ethics includes the fundamental ground rules by which we all live our lives. Every day managers have to make decisions that have moral implications. These decisions impact organisations and key stakeholders. Conducting business in an ethical manner is important for both legal and business reasons.

Ethics is a set of standards for judging right from wrong. It involves the making of fair and honest decisions. At a business level it involves such issues as fair and honest competition, acting without deception and working within the boundaries of the law.

Ethics starts with the awareness of right and wrong, and then doing what is right. But doing the right thing is not always easy in organisations that have diverse values. Values which guide how we ought to behave are considered moral values. Statements around how these values are applied are sometimes called moral or ethical principles.

Ethics can be translated into 'codes of conduct' and 'ethics rules'. In order to create an ethical work environment it is important to offer an effective ethical program. Stakeholders will see an organisation as valuing people more than profit if it operates ethically. This can build a positive public image. By consistently applying ethical values the organisation can become very successful and socially responsible.

Part of the manager's role is to show others what it means to make ethical decisions. It therefore builds a strong foundation for trust and positive relationship between the manager and the employees.

Business Ethics

The field of business ethics is a sub-discipline of management. It is also known by other names such as ethics management or values management. It developed in response to the public's demand for corporate social responsibility in the 1960s. Its emergence is similar to other management disciplines such as public relations and human resource management. Managing ethics in the work place, developing codes and updating policies and procedures are practical matters. As with any management practice, the most important outcome is behaviours preferred by an organisation. Ethical values will be meaningless unless it produces fair and just behaviours at the workplace.

Attention to ethics in the work place guides the behaviour standards of staff and management. During a crisis, management is amply guided by the ethical standards. Ethics can serve as a strong moral compass. In complicated and dynamic economic environments organisations need ethical practices to guide them for the common good of all stakeholders.

Honesty and courtesy are the golden rules of business ethics. But sometimes, when presented with complex ethical dilemmas, managers realise that other aspects of ethics are also required. Today, ethics in an organisation can be managed through the use of 'code of conducts', 'code of ethics', 'policies and procedures' and 'ethics training'. Codes of conducts specify actions in the workplace and code of ethics are general guides to decisions about those actions.



11.2.6.4 Ethics –Legal and Social Aspects

These days the benefits of ethical behaviour are becoming clearer and more immediate. There has always been a suggestion that in the long run behaving ethically will be of benefit to an organisation. Ethical behaviour can also lead to beneficial impacts on customer perception and purchase decisions.

Corporate social responsibility (CSR), is ethical behaviour on a corporate level. It is an attempt to ensure that social, economic and environmental considerations, are balanced across the whole of an organisation's activities. Businesses that demonstrate good CSR always receive favour from customers and the general public, as well as governments. CSR is indeed becoming a very important consideration. It really determines whether a company fails or succeeds.



11.2.6.5 Conservation and Environmental Issues

An expanding global population and rapid industrialisation, combine to pose a serious threat to the environment. Global Warming, as we know it now, is a direct result of unsustainable development by humans, both past and present. In a way, Global Warming is a direct result of corporate greed.

Many environmental problems threaten the health, prosperity and security of every nation. Mankind has, over the years, taken actions which have collectively destroyed the natural environment. The future of the human race and all living things on planet earth is now under serious threat as a result. It is a problem which needs a global effort to solve.

Chemical contamination of food and water resources, air pollution, rapid population growth and industrialisation, and the destruction of plant and animal species, are Global Management Issues. When people lack access to clean water, food, energy or a liveable environment, economic instability and political unrest can result. This can eventually disrupt national and global civilisation.

Addressing these problems and achieving sustainable development, is a global concern for governments, private organisations, business houses, non-profit organisations and all global citizens. At the organisational level, managers play a crucial role in ensuring that policies are developed to protect the environment. Making economic gains at the expense of the environment is unethical.

Environmental issues must shape an organisation's policies, objectives and mission. It has huge implications for organisational success, brand values and customer preferences for its products. The new, environmentally conscious marketplace, rewards sincere and ethical business practices. Businesses and other organisations must become aware of the environmental issues and become socially responsible.

Countries have been working together to create policies, for industries to promote sustainable development. Carbon trading, for example, first resulted from the Kyoto Protocol. This was further enforced at the global climate summit held in Copenhagen (Denmark), in December 2009. Organisations must know these global initiatives and implement them at the corporate level.

Managers must be aware of other equally important international agreements, such as the Stockholm Convention on Persistent Organic Pollutants, the Basel Convention on Trans-boundary Movements of Hazardous Wastes, the UN Long-Range Trans-boundary Air Pollution Agreement and the UN Forum on Forests. A variety of other international organisations, institutions and treaties outside of the United Nations system, also exist to promote the conservation of the environment.

The 'green movement' is a global effort by environmentally conscious consumers. There are other consumer-based organisations with similar objectives. Such movements can determine whether, organisations survive or not. It is the role of management and the board of directors of organisations, to take green issues seriously. Without that, organisations will lose their competitiveness. An uncompetitive firm will soon be out of business.



Sustainable Development

One of the best practices of CSR is sustainable development. Sustainability refers to

Development that meets the present needs without affecting the ability of the future generation and their needs.

The concept of sustainability has received increased attention from governments, businesses, community-based organisations and the society at large. Sustainability is not just concerned with environmental issues, but also with the social, economic and cultural issues of the society. It also covers the fair distribution of economic benefits, human rights, community involvement and product responsibility.

Businesses globally are being challenged to consider the longer-term benefits of the society, rather than the short-term pursuit of profit, individual enjoyment and consumption. The short-term gain of individual organisations needs to be balanced against the consequences and gains for the society at large.



Learning Activity 11.2.6: Complete the activities given below.

1. Diseases such as HIV/AIDS are not good for business growth. Explain why this is so.

2. Why is 'gender equality' important at the workplace?

3. What is discrimination, and how does it affect the performance at the workplace?

4. What is 'ethics' and how is it important to a business?

5. What is 'Global Warming' and what is causing it?

NOW CHECK OUR ANSWERS AT THE END OF THE MODULE



Summary

- A business is a profit-seeking organisation that provides goods and services to satisfy customer needs. There are small, medium and large scale businesses operating in the country today. Larger businesses have more capital, serve larger markets, generate more revenue and make more profits. All businesses in PNG are part of either the formal or informal sector. Many Papua New Guineans are involved in the informal sector.
- Businesses come in various sizes and structures. These are called legal operating structures. The legal structures also reflect the ownership of the business. The government has legalised these forms of operating structures. Sole proprietorship is the simplest form which many entrepreneurs in the country are engaged in. A corporation, on the other hand, is a complex business organisation.
- All businesses perform four main functions - marketing, operations, human resource and finance. A business organises itself according to these main functions. As a business expands in size and scale, these functions become clearer. Business success depends on how these four functions or roles are organised and performed.
- As an organisation, a business has systems, processes, rules, regulations, and goals. It acquires and organises resources to produce goods and services needed by consumers. When a business experiences success, owners, customers, and even the government benefit.
- Every business has two (2) types of environments; the internal and external. Because these environments always change, the business organisation must adapt to the changes to survive.
- Management is an important concept which concerns every organisation. Management, which is the art of directing human and material resources, enables an organisation to achieve specific goals such as profit, increased sales and business expansion. Organisational goals are achieved through management. It is true that no organisation can operate without a manager. Managers possess various styles and skills which are mostly learnt.
- Every organisation, including businesses, deal with many issues from both the internal and external environments. HIV/AIDS, Global Warming, Ethical Issues, Discrimination, Gender Equality and Corporate Social Responsibility, are the Major Issues currently affecting every organisation. Organisations must effectively deal with these challenges since failure to do so, will lead to organisational failure.



ANSWERS TO LEARNING ACTIVITIES

Activity 11.2.1

1. What is a business?

A business is any profit-seeking organisation that provides goods or services designed to satisfy customer needs. As an organisation, it has goals, objectives, functions, responsibilities and a structure.

2. How is profit maximisation different from profit satisfaction and which one is achievable?
Profit maximisation – making the highest level possible (economic model which is not real).

Profit satisfaction – making a reasonable level of profit that is possible under normal conditions.

3. Differentiate between lifestyle business and hobby business

Hobby business: a business involving a particular craft or activity which someone undertakes and makes a little money, too. This type of business is very small and is used as a fun outlet for energy or a supplement to one's regular income.

Lifestyle business: is one in which the owner(s) make a living wage that typically could be earned working for someone else. The purpose is to enjoy a certain lifestyle while practising their trade, profession or knowledge and skills.

4. What is the "stakeholder value creation" business model?

This is a broader business model. Its focus is on satisfying as many stakeholders or parties as possible, apart from its owners.

5. Differentiate between 'profit' and 'cash flow'.

Profit is the net of income minus expenses. It is expressed in money terms, though it may not represent liquid cash on hand. Cash flow concerns the actual movement of cash in and out of a business. The net of this movement is what makes the business remain operational from week to week and month to month. If the cash flow is negative, a business will have a cash crisis, which can lead to the failure of business.

6. What do you think will happen if a business places more priority on the profit and less on customer satisfaction?

Customers will gradually or quickly pull away from the business. This will leave the business with no customer to sell to. As a result, the business will experience cash flow problems, and ultimately business failure.



Activity 11. 2.2

1. State one advantage of a sole trader over a partnership business.

Decision making is easier and smoother with only one person involved. Partners of a partnership business can sometimes disagree, which could delay business progress and even lead to disputes.

2. Define the term 'limited liability.'

'Liability always has a negative meaning or implication. It means a duty or obligation towards someone or something. In business, it means the duty to pay or repay. When we add the word 'limited', it means that the duty to pay or repay is limited to a certain amount.

3. Differentiate between a public and a private corporation.

A public corporation is owned by the public through shareholding. Shares of a public corporation are traded on the stock exchange. Private corporations are owned by a few shareholders. Its shares are not traded publicly.

4. What is a stock exchange?

It is a place where shares of their public corporations (listed companies) are traded publicly. Interested investors can buy and sell shares through the stock exchange. Port Moresby Stock Exchange and London Stock Exchange are two such examples. There are many stock exchanges located in major cities around the world.

5. What does the initial 'Ltd' mean?

Ltd is short for the word 'limited'. It is added to the name of a public corporation to signify that shareholders have limited liability.

6. Why do shareholders of a corporation have limited liability?

Because a corporation is a type of business structure that provides limited liability for its owners or shareholders. A corporation is considered as a separate legal entity once it is registered and commenced. Shareholders are said to be separate from the corporation they own. That is why their liability is limited to the capital they have contributed to start the corporation or to buy the shares.



Activity 11.2.3

1. State the reason why the human resource management is a difficult business function.
Unlike other organisational resources, humans have feelings, emotions, ego, experiences, skills, knowledge and a host of other elements which give them a unique identity. Therefore, it is easier to deal with material wealth or resources but is a challenge for managers when it comes to dealing with humans.
2. How is marketing different from the other business functions?
Of the four business functions, marketing is considered as a link or an interface between the business organisation and the external customers. Marketing brings the product to the customers and enables customers to buy the product. Revenue is earned through sales and marketing; two activities associated with marketing.
3. Differentiate between 'product-oriented' marketing and 'customer-oriented' marketing.
It is all to do with the emphasis or attention given to either one of them. If the attention is focused on the product then it is considered as product oriented-marketing. When attention shifts to the customer, it is said to be customer-oriented marketing.
4. Why must every business focus its marketing efforts and attention on the customer?
The customer is always important. Therefore, it should be at the centre of the marketing efforts of any business organisation. A product must have its customers. Otherwise, there will be no sales, no profit or no business. The customer is always very important. Without the customer there will be no business.
5. Develop an operations cycle of a product you're familiar with. For example; the making of scones and ice blocks.
Here, you should list the activities and ingredients which fall under the three stages: input, processing or transformation and output. A flow diagram should be drawn to illustrate the process.
6. What is a 'loss-making' period of a business, and why is it important for a business owner to take it into consideration when planning?
This period varies from one business to another. However, in essence, it is the period between the start/commencement of a business and when it starts to earn revenues and a clear profit. If this period is much longer, a business owner(s) must have enough cash reserves to cover this period until such time profits are generated.
7. Do you think it is easy for a start-up business to obtain external financing? Why?
Usually, start-up businesses find it difficult to obtain external funding such as bank loans. The reason is that lenders and investors consider start-up businesses to be too risky to lend money. They are allowed to operate for a longer period of time to prove their worth and viability before external funding can become a reality.



Activity 11.2.4

1. What is an organisation?

An organisation is therefore, a body or structure made up of relationships, responsibilities, authorities and duties. All organisations have purposes or goals which they set out to achieve. It has physical and non-physical elements or characteristics which combine to give it a structure or entity. Physical aspects include; buildings, machines and workers. Non-physical assets include roles, relationships, authority, responsibilities, goals and objectives.

2. What is the relationship between these two terms: 'power' and 'authority'?

Authority and power go hand in hand. Authority is the right a person of higher status has in an organisation. Authority therefore, gives a person the right to demand obedience and performance from those below him/her. Authority is established through the organisational structure. At various levels of the organisation, there is a certain amount or extent of authority. Power is associated with authority; it is the ability to influence people's behaviours towards what is organisationally desirable. Both power and authority have their limits and boundaries. For authority and power to be legitimate or genuine, subordinates in the organisation must recognise, respect and agree to live under the authority and power of a leader or manager. It is the submission by subordinates which gives legitimacy to power and authority.

3. State five (5) similarities and differences between a government school and a business organisation. Show your answer in a table form.

| Similarities | Differences |
|---|---|
| <ul style="list-style-type: none">• Both have mission, goals, objectives.• Both have managers/leaders• Managers of both organisations perform management functions (Fayol's).• Their lifetime is unlimited.• They are both organisations• They both have established roles, responsibilities, channels of communication, authority and power sources.• They both have external stakeholders.• They both have internal and external environments. | <ul style="list-style-type: none">• A business aims to make a profit; a school is not profit oriented.• A business has few owners; a school is for the general public.• A school is a service for the people; a business aims to make a profit.• A school has a board of management; a business has a board of directors (large businesses only).• A school's decisions follow a committee system; a business' decisions are made by one or two people. |

4. Differentiate between 'line' and 'staff' organisations.

Line organisation: *These are the organisational units that perform tasks that are directly related to the primary mission or objective of the organisation. In a business, these units produce, deliver, and sell the products or render services to customers directly.*

This organisation is divided into departments, each with a departmental head who is responsible for the activities of the department. Authority then flows downwards through



the supervisory layers to the bottom of the organisation. There is direct management control from the very top which flows through to the ordinary workers at the bottom. This form of organisation promotes rapid decision-making and simplifies coordination. Supervisors can easily delegate responsibilities and check for task accomplishment.

Staff or functional organisation: *Staff units: These units provide specialised support services to the line units or to other support units. They do not deal with the customers directly but have internal customers, those that are within the organisation. Examples are accounting, engineering, logistics or materials management, Information and Communications Technology and human resources management. They have only the authority to give advice or render service to line units or other staff units but not to directly give instructions to the personnel of these units. Instructions have to be coursed through the respective unit managers or supervisors.*

Here various functions or work areas are identified and an expert in each is appointed. The expert will be responsible for special functions across various units or departments. This expert will be in direct contact with the supervisors and the staff in operating the departments. He or she is authorised to give direct instructions without consulting the line managers and supervisors.

5. How does R&D (research and development) help a business become highly competitive?

The function of R&D is to develop new products or the processes of manufacturing a product. Every time new products come out, they replace existing products. This trend will always continue. In order for a firm to continue to maintain its market share, it must develop new products and modify or innovate existing products to suit changing customer tastes. If the R&D function is very active, a breakthrough product can be designed to take the lead in the market. A market leader always has more advantages.

6. Is a growing population of PNG good for business? Explain.

On a purely economic basis, a growing economy represents an increasing consumer base. That increase in the number of consumers will likely to create new business opportunities as well as expanding the existing business activities. India and China combined to have one third of the world's population. That is why, their economies are the fastest growing. So, the bigger the population, the bigger the market.

On the other hand, an expanding population will increase the demand for scarce, even irreplaceable, resources such as land, food, water, and energy. If the economy does not grow as fast as the population, the incidence of poverty will increase. Unemployment will grow, and education and health care will deteriorate. (Comment: Let us not give our young readers the impression that a fast-growing population is an unmixed blessing for PNG. They should be made conscious of the need to plan family size responsibly so that the nation's scarce resources will still be available to future generations. Even China and India are struggling to cope with the need to feed, support, educate, and care for their huge populations.)



7. How does an economic downturn affect businesses?

During an economic downturn, economic activities such as production, sales and investment fall. The overall GDP of the country declines to low levels and the economy shrinks. Employment and investment are low during those times. Because of all of these factors, businesses slow their operations or reduce it in line with the slowing economy. So we can see that there is a direct relationship between the economic cycle and business activities in the country.



Activity 11.2.5

1. How did Henri Fayol contribute to modern management?
Henri Fayol developed the five management functions or roles which are still in use today. In all organisations you will find these functions or roles being performed.
2. Explain the difference between 'leading' and 'controlling'.
*Leading is the management role of providing direction and motivating others (workers, subordinates) to work towards achieving the set goals and objectives.
Controlling is the management role of monitoring the use of human and material resources to ensure that goals are being achieved as intended.*
3. What was the main management problem that Frederic W. Taylor tried to address through his 'scientific management' theory?
There was a shortage of labour in the United States as industries began to grow in the 1900s. Frederic W. Taylor was concerned about how to use the available human workers to achieve maximum production or output. Therefore, he developed time and motion studies to establish the most efficient way of production in the factory. However, he forgot to take into account the human/social side of workers.
4. 'Managers are not born'. Explain what you understand by this statement.
Contrary to long held beliefs, managers are not born with special skills to manage rather, they learn to manage through practice and exposure to situations. The best managers are those with vast experiences working in different organisations and environments. It goes on to prove that anyone can become a good manager if he/she desires to be.
5. What kind of workers will respond well to the autocratic style of management, and why?
Under the autocratic style of management, worker freedom is restricted. Workers therefore only take orders and perform their set tasks or duties during the set time period. The pay is based on their performance. Workers do not have much say and have no part in the decision making process. The kinds of workers who work comfortably under such a style of management are semi-skilled, unskilled and uneducated workers. Many unskilled migrant workers fit into this category.
6. How do coaching managers function?
The coaching manager helps employees identify their strengths and weaknesses and encourages them to establish long-term development goals. Coaches rely on delegation and agree with employees about their role and responsibilities. They give employees challenging assignments and encourage initiative. This style focuses on personal development rather than on immediate work-related tasks.



Activity 11.2.6

1. Diseases such as HIV/AIDS are not good for business growth. Explain why this is so.
Such diseases affect the health, well-being and motivation of the workforce. Those infected with such diseases reach a stage when they are too weak to continue working. For a country like PNG that is labour-intensive, we cannot afford to lose the workforce, particularly if those infected are educated and skilled workers. Businesses depend on workers for many things including the performance of specific tasks which contribute towards achieving business goals.
2. Why is 'Gender Equality' important at the workplace?
Gender balance or Gender Equality is gaining a lot of prominence these days because of global movements. Government, civil societies and corporate bodies have come to recognise the importance of both sexes – male and female. Traditional practices are now abandoned in place of new, global practices. The point is that women can comfortably perform jobs which were previously dominated by males. When both sexes perform their roles and functions well, the combined effort will produce an even better and more prosperous society.
3. What is discrimination, and how does it affect performance at the workplace?
Discrimination is an act of favouring one person over another. This favouritism can be caused by factors such as gender, race, nationality, ethnicity, religion or education level. It is an unfair form of treatment given to someone or a group of people. The result of such unfairness is always resentment, anger and conflict. When there is discrimination at the workplace, performance levels will be affected.
4. What is 'Ethics' and how is it important to a business?
Ethics simply is about knowing the difference between right and wrong and choosing to do right. Ethics includes the fundamental ground rules by which we all live our lives. Ethics is a set of standards for judging right from wrong. It involves the making of fair and honest decisions. At a business level it involves such issues as fair and honest competition, acting without deception and working within the boundaries of the law.

Ethics starts with the awareness of right and wrong, and then doing what is right. But doing the right thing is not always easy in organisations that have diverse values. Values which guide how we ought to behave are considered moral values. Statements around how these values are applied are sometimes called moral or ethical principles.
5. What is 'Global Warming' and what is causing it?
It refers to the general rise in the global temperatures due to the increased levels of carbon in the atmosphere, and the depleted ozone layer. Environmental pollution and destruction of forests are direct contributing factor too. High levels of carbon emission, if not controlled, will continue to make the situation worse. It is caused by corporate greed.

**GLOSSARY**

| TERM | TERM |
|--------------------------|---|
| Authority | Authority refers to the right or power to enforce rules or give orders. |
| Autocratic leadership | Type of leadership where manager can mobilise people towards a new direction through a clear vision for the organisation. |
| Behavioural approach | Managing business by addressing the social and emotional aspect of the workers. |
| Business | The activity of making, buying or selling goods or providing services in exchange for money. |
| Business environment | The operation of the business made up of two distinctive parts, internal and external environment. |
| Business goals | The aim of the business. |
| Business groups | The business type where people belonging to a clan or tribe operating it. |
| Cash flow | Plan of the money coming into and going out of the business. |
| Committee organisations | The traditional form of organisational structure found largely in non- profit organisations. |
| Company | A business that operates with legal (lawful) documents. |
| Conservation | Steps taken to protect the environment from being destroyed. |
| Corporations | Companies recognized by law as a body with its own powers and liabilities, separated from the members. |
| Democratic leadership | Type of leadership that encourages people to take responsibility by contributing to decision making. |
| Duty | What someone has to do. |
| Economic cycle | The level of production, prosperity, recession, and recovery by business over a given period of time. |
| Emerging technology | A new technological field which has the potential to significantly change our society. |
| Ethics | The environmental rule by which we all live our lives. |
| Finance | External funding such as bank loans business acquire to expand their business. |
| HIV/AIDS | Human Immuno Deficiency/ Acquired Immuno Deficiency Syndrome |
| Hobby business | A business where the owner enjoys a particular craft or activity which he or she regularly undertakes and makes a little money selling items or services. |
| Human resources | The division of the business that sorts out employees, welfare for example; wages/ salaries, leaves fares, housing accommodation, transport and safety. |
| Laissez-faire leadership | A type of leadership where managers imposes very little or no control over the activities and behavior of workers. |
| Lifestyle business | A business where the owner makes a living for income that |



| | |
|-----------------------------|--|
| | typically could earn working for someone else. |
| Line and staff organisation | Workers or staff in the organization placed into departments based on their skills, expertise, work activities and resource use and each with a departmental head. |
| Management skills | The technique of looking after businesses. |
| Marketing | The process of planning the origin, pricing, promotion and distribution of ideas, goods and services. |
| Organisation | Body or structure made up of relationships, responsibilities, authorities and duties. |
| Organisational structure | A business structure that describes the relationship between the different parts of the organisation and the people in it. |
| Partnership | The business type that has two or more people operating the business |
| Profit | Difference between income and expenditure. |
| Responsibility | The obligation to ensure that authority is correctly used. |
| Return on Investment | The return made on an investment, expressed as a percentage. |
| Revenue | Money coming into and going out of the business. |
| Scientific management | The form of management where workers are paid according to their output with the time, equipment and material available. |
| Social media | Using social networks like face book, goggle or yahoo to market and sell your products. |
| Society and culture | The wants of individuals and families that change as tastes, preferences and lifestyle changes. |
| Sole proprietorship | The business type that has one owner operating it. |
| Stakeholders | Groups of people who have interest in the business for instance; the government, suppliers and creditors. |
| Sustainable development | Development that meets present needs without affecting the ability of future generations and their needs. |
| SWOT | Strengths, weaknesses, opportunities and threatens. |
| Theory | Statement arising out of research into past actions and ideas. |



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<http://casnocha.com/2011/02/the-four-types-of-entrepreneurship.html>

<http://www.businessdictionary.com/definition/business.html#ixzz3REQ3Vcw2>



FODE PROVINCIAL CENTRES CONTACTS

| PC NO. | FODE PROVINCIAL CENTRE | ADDRESS | PHONE/FAX | CUG PHONES | CONTACT PERSON | | CUG PHONE |
|--------|------------------------|--------------------------|--------------------|------------|-----------------|--------------|-----------|
| 1 | DARU | P. O. Box 68, Daru | 6459033 | 72228146 | The Coordinator | Senior Clerk | 72229047 |
| 2 | KEREMA | P. O. Box 86, Kerema | 6481303 | 72228124 | The Coordinator | Senior Clerk | 72229049 |
| 3 | CENTRAL | C/- FODE HQ | 3419228 | 72228110 | The Coordinator | Senior Clerk | 72229050 |
| 4 | ALOTAU | P. O. Box 822, Alotau | 6411343 / 6419195 | 72228130 | The Coordinator | Senior Clerk | 72229051 |
| 5 | POPONDETTA | P. O. Box 71, Popondetta | 6297160 / 6297678 | 72228138 | The Coordinator | Senior Clerk | 72229052 |
| 6 | MENDI | P. O. Box 237, Mendi | 5491264 / 72895095 | 72228142 | The Coordinator | Senior Clerk | 72229053 |
| 7 | GOROKA | P. O. Box 990, Goroka | 5322085 / 5322321 | 72228116 | The Coordinator | Senior Clerk | 72229054 |
| 8 | KUNDIAWA | P. O. Box 95, Kundiawa | 5351612 | 72228144 | The Coordinator | Senior Clerk | 72229056 |
| 9 | MT HAGEN | P. O. Box 418, Mt. Hagen | 5421194 / 5423332 | 72228148 | The Coordinator | Senior Clerk | 72229057 |
| 10 | VANIMO | P. O. Box 38, Vanimo | 4571175 / 4571438 | 72228140 | The Coordinator | Senior Clerk | 72229060 |
| 11 | WEWAK | P. O. Box 583, Wewak | 4562231/ 4561114 | 72228122 | The Coordinator | Senior Clerk | 72229062 |
| 12 | MADANG | P. O. Box 2071, Madang | 4222418 | 72228126 | The Coordinator | Senior Clerk | 72229063 |
| 13 | LAE | P. O. Box 4969, Lae | 4725508 / 4721162 | 72228132 | The Coordinator | Senior Clerk | 72229064 |
| 14 | KIMBE | P. O. Box 328, Kimbe | 9835110 | 72228150 | The Coordinator | Senior Clerk | 72229065 |
| 15 | RABAUL | P. O. Box 83, Kokopo | 9400314 | 72228118 | The Coordinator | Senior Clerk | 72229067 |
| 16 | KAVIENG | P. O. Box 284, Kavieng | 9842183 | 72228136 | The Coordinator | Senior Clerk | 72229069 |
| 17 | BUKA | P. O. Box 154, Buka | 9739838 | 72228108 | The Coordinator | Senior Clerk | 72229073 |
| 18 | MANUS | P. O. Box 41, Lorengau | 9709251 | 72228128 | The Coordinator | Senior Clerk | 72229080 |
| 19 | NCD | C/- FODE HQ | 3230299 Ext 26 | 72228134 | The Coordinator | Senior Clerk | 72229081 |
| 20 | WABAG | P. O. Box 259, Wabag | 5471114 | 72228120 | The Coordinator | Senior Clerk | 72229082 |
| 21 | HELA | P. O. Box 63, Tari | 73197115 | 72228141 | The Coordinator | Senior Clerk | 72229083 |
| 22 | JIWAKA | c/- FODE Hagen | | 72228143 | The Coordinator | Senior Clerk | 72229085 |

**SUBJECT AND GRADE TO STUDY**

| GRADE LEVELS | SUBJECTS/COURSES |
|---------------------|--|
| Grades 7 and 8 | 1. English |
| | 2. Mathematics |
| | 3. Personal Development |
| | 4. Social Science |
| | 5. Science |
| | 6. Making a Living |
| Grades 9 and 10 | 1. English |
| | 2. Mathematics |
| | 3. Personal Development |
| | 4. Science |
| | 5. Social Science |
| | 6. Business Studies |
| | 7. Design and Technology- Computing |
| Grades 11 and 12 | 1. English – Applied English/Language & Literature |
| | 2. Mathematics - Mathematics A / Mathematics B |
| | 3. Science – Biology/Chemistry/Physics |
| | 4. Social Science – History/Geography/Economics |
| | 5. Personal Development |
| | 6. Business Studies |
| | 7. Information & Communication Technology |

REMEMBER:

- For Grades 7 and 8, you are required to do all six (6) courses.
- For Grades 9 and 10, you must study English, Mathematics, Science, Personal Development, Social Science and Commerce. Design and Technology-Computing is optional.
- For Grades 11 and 12, you are required to complete seven (7) out of thirteen (13) courses to be certified.

Your Provincial Coordinator or Supervisor will give you more information regarding each subject.

**GRADES 11 & 12 COURSE PROGRAMMES**

| No | Science | Humanities | Business |
|----|-----------------------------|---------------------------|---------------------------------------|
| 1 | Applied English | Language & Literature | Language & Literature/Applied English |
| 2 | Mathematics A/B | Mathematics A/B | Mathematics A/B |
| 3 | Personal Development | Personal Development | Personal Development |
| 4 | Biology | Biology/Physics/Chemistry | Biology/Physics/Chemistry |
| 5 | Chemistry/ Physics | Geography | Economics/Geography/History |
| 6 | Geography/History/Economics | History / Economics | Business Studies |
| 7 | ICT | ICT | ICT |

Notes: You must seek advice from your Provincial Coordinator regarding the recommended courses in each stream. Options should be discussed carefully before choosing the stream when enrolling into Grade 11. FODE will certify for the successful completion of seven subjects in Grade 12.

CERTIFICATE IN MATRICULATION STUDIES

| No | Compulsory Courses | Optional Courses |
|----|---------------------------------|---|
| 1 | English 1 | Science Stream: Biology, Chemistry, Physics |
| 2 | English 2 | Social Science Stream: Geography, Intro to Economics and Asia and the Modern World |
| 3 | Mathematics 1 | |
| 4 | Mathematics 2 | |
| 5 | History of Science & Technology | |

REMEMBER:

You must successfully complete 8 courses: 5 compulsory and 3 optional.