

FOREIGN TRADE

Is the trade which is conducted across the boundary of the country. It includes imports and exports .

- Export trade is the selling of goods to abroad.
- Import trade is the buying of goods from abroad.

TERMS OF INTERNATIONAL TRADE

1. Import trade

Is the trade which involves with purchasing of goods and services from another country.

2. Export trade

Is trade which involves selling goods and services outside of the country.

3. Entre port trade

It involves the importation of goods in a country not for sale in the country but for selling them to another country.

e.g. a businessman in Tanzania may buy goods from Japan and then to another trader in Zambia.

4. Bilateral trade

Is the selling and buying of commodities with two countries only. eg Tanzania and Cuba, Tanzania and China etc

5. Multilateral trade

This is when a country trades with many countries. eg Tanzania trades with Kenya, Uganda, Rwanda, Burundi etc

6. VISIBLE TRADE- This refers to import and export of goods.

7. **INVISIBLE TRADE** – This refers to import and export of services

8. BALANCE OF TRADE - This is the difference between the visible import and the visible export of a country. BOT can be ;

I. Favourable balance of trade

Is when a country exports more goods than she imports during a specific period.

II. Unfavourable balance of trade

Is when a country's imports exceed her exports.

9. BALANCE OF PAYMENT

- Is the difference between the receipts (both for visible and invisible exports) and payments for both visible and invisible imports. Or
- Is the difference between the receipts from export goods and services and payment for the import goods and services. BOP can be;

i. Favourable balance of payments. This exists when a country's receipts from both visible and invisible export trade exceed its payment for both visible and invisible import trade

ii. Unfavourable balance of payment / adverse balance of payments. This occurs in a situation where a country's payment for both visible and invisible import trade exceed its receipts from both visible and invisible exports.

iii. Balanced balance of payments. This occurs when country's receipts from exports and its payments on imports are equal.

REASONS FOR INTERNATIONAL TRADE / WHY INTERNATIONAL TRADE?

I. Different in natural resources.

Some countries are blessed with minerals resources some with oil, wealth, some with oil wealth , some with rich, agricultural and some with industrial expertise.

II. Geographical different.

Counties sell what they are physically capable of producing and buy from other what they either do not have at all or here only insufficient quantities.

III. Different in human skills and productivity.

Many developing countries have million of people who are illiterate and lacking technical administrative and managerial skills which lead them into subsistence peasant agriculture which developed countries people here high skilled engage into industrial products.

IV. Uneven distribution of capital equipment around the world.

Capital consisting machines tools, factories an essential factor of products, thus in north America and Europe west work is done machine while in Africa latin America and ASIA most work is done by hand this means less can be produced per man, per hour and that production cost tends to be higher than in industrialized countries.

V. Political reason.

A country may trade with another country basically for political reasons e.g. PTA , SADC , the reverse is thus , a country often refuse to trade with countries due to political disagreements.

VI.Specialization and division of labour among countries.

ADVANTAGES OF INTERNATIONAL TRADE

- I. It enable a country to get what she can not produce herself e.g. Tanzania import vehicle, heavy machine , crude oil etc
- II. It enable a country to dispose (sell) off her surplus goods which would otherwise have to be destroyed.
- III. It offer the greater variety of goods to the country.

- IV. At the time of calamities e.g. flood, drought , famine , food and other supplies can be obtained from other countries.
- V. It promote health competition among local producer to absence of international trade may establish a money and charge exorbitant prizes.
- VI. It promote friend ship and peace among nation since people moves from one country to another which led to international understanding.
- VII. It enable country to earn foreign exchange.

DISADVANTAGES OF INTERNATIONAL TRADE

- a) Price fluctuations and unexpected fall in demand. This is when a country is too much specialized on production of one commodity e.g. Zanzibar in clove.
- b) When a country export mainly minerals, it will run out of its deposit and end up with nothing else to export e.g. Zambia fails to intensify her industries and agriculture.
- c) Some of the imported goods have adverse effects to the citizens of importing countries e.g. harmful drugs.
- d) Problems of dumping i.e. importing expired items which their uses are out dated.
- e) Political instability

A stable political system is conducive to smooth business relationship with all party of the world problems of political instability may lead to civil strikes, wars sudden, political change etc.

TYPES/ FORMS OF INTERNATIONAL TRADE

- I. Bilateral trade.
- II. Multilateral trade.

- III. Entre port trade.
- IV. Visible trade.
- V. Invisible trade.
- VI. Export trade.
- VII. Import trade.

BARRIERS TO INTERNATIONAL TRADE/TRADE RESTRICTIONS

These are obstacles set up to restrict free movement of goods between different countries. Both imports and exports movements. They are:-

- I. Import protectionism / total ban (embargo).

This is when the import of certain commodities are totally forbidden by law to be brought into a country.

- II. Tariffs / customs duties.

Are tax imposed by importing country to goods coming into the country. The tax is paid to the government of the importing country by the importer.

- III. Quota. This is the legal limit placed on the amount of a products allowed to enter a country. The purpose of the quota is to conserve on foreign exchange and
protect local industrial and employment

- IV. Subsidies.

– These are payment made by the government to producers of alternative for foreign goods. The effects of subsidies is to reduce the cost of producing the goods thus allowing them to be sold at lower price abroad.

- V. Exchange control. In this method the government interfere in the process of buying and selling hard currencies the government may allot or ration the foreign exchange to the importer so that they can buy only a limited amount of goods from foreign countries.

VI. Preferential treatment. This is when discrimination is made in the rate of duties with regard to different countries goods with preferential treatment are charged lower duties.

VII. Import licenses. Under this system the government allows the import of goods with a permit in form of import license (OGL).

VIII. Sanitary regulation eg by ministry of health, agriculture ministry and National bureau of standards.

IX. Devaluation policy.

KINDS OF TARIFFS

Two basic kinds of tariffs exist

a) Advalorem duties

This is the duty expressed as a percentage of the value of goods e.g. 10% of import size. It is a customs duty levied according to the value of goods.

b) Specific duties

It is a customs duty levied according to the weight or volume of goods.

These duties are expressed as a specific amount of the currency of money per unit of quantity e.g. 100 per pen.

REASONS FOR IMPORTING TARIFFS/REASONS FOR PROTECTIONISM

a) National security

Countries need to have food, industries etc to satisfy for the need. Tariffs would prevent the entrance of imported goods hence force citizens to produce in their own.

b) To protect infant industries

Most young countries cannot compete with developed countries' products hence impose a currency of money per unit of quantities e.g. shs 100 per pair.

c) To promote employment

Government should impose restriction this will result to increase domestic production which in turn will increase domestic employment.

d) To generate revenue for government through import and export duties.

e) To prevent consumption of harmful commodities to the lives of the people.

f) To avoid dumping and its effects.

IMPORT TRADE

Is the buying of goods and services from other countries.

Those firms wishing to import goods from abroad may go through the whole process for themselves but only the large firm can do so. Firms use the following ways to import:

A. Import merchants

These merchants deal on their own behalf. They keep a watch on goods offered for sale by foreign producers, buy them, then store them if necessary and dispose of them on the home market.

B. Import agents. These agents represent a number of overseas exporters in this country.

- They work on behalf of a number of overseas exporters and earn or receive a commission by selling their principals' goods.
- They are called “del-credere agents” and they receive an extra commission to cover the risk that they may have if goods are left in their hands.

C. Import brokers

- Import broker usually specializes in a particular product.
- They act on behalf of manufacturers wishing to obtain supplies of goods or raw materials from abroad, or on behalf of overseas producers wishing to sell there in this country.

DOCUMENTS USED IN INTERNATIONAL TRADE

1. Shipping note

This is the document which is issued by the shipping company which contains instructions to the captain of the ship to receive on board the vessel with the specified quantity of goods from the exporter concerned.

2. Weight note

This document states the weight and volume of the goods delivered at the dock.

3. Invoice

This is the bill which states the kind of goods that have been sent to the buyer , their weight volume, making value, price per unit, insurance freight and other charges to be paid to the exporter.

4. Consular invoice

- This is an invoice signed by consul office for importing country verifying that the price quoted on the invoice is the exporters' country. This document enables the importer to obtain prompt clearance of goods after they reach the port of destination .Or
- This is an invoice that has been signed by the embassy of the country to which the goods are being exported.

5. Bill of lading

This is a commercial document signed by the ship owner or ship master or by an agent of the ship owner, stating the condition under which the goods are being carried

The bill contains

- i. The name of the ship.
- ii. The quantity.
- iii. The type of the goods.
- iv. Special marking on the package.
- v. The name of the port of embarkation and that of unloading etc

Types of bill of lading

a) A clean bill of lading

This states that the goods and packages of goods were in good condition at the time of loading them in a ship.

b) The dirty bill of lading

It is also called a “foul” or “clause” bill of lading.

This bill of lading states that some of the packages or part of the container were not in good conditions e.g. damaged.

IMPORTANCE OF THE BILL OF LADING

- ❖ It is the semi - negotiable instruments being a document of title of goods
- ❖ It acknowledges the receipts of goods on board or ship
- ❖ It is a proof of a contract between the shipping company and exporter of the goods which covers all terms of contract of freight between the two parties
- ❖ It provides the information to be interested parties as it discloses many details of goods

6. Certificate of origin.

- This states the original place of production.
- This applies because some countries have natural agreements to charge or to charge less customs duties on goods imported from one to another.

7. Letter of hypothecation.

Is a letter from an exporter to his bank authorizing the bank to sell goods being exported for the best possible price if the bank can not obtain payment on a bill of exchange.

8. Certificate of insurance.

Is usually enclosed together with the other documents and assures interested parties that the goods have properly insured.

9. Packing list.

This is a document written by the supplier to the buyer of the goods informing the buyer of the goods and specification of the packing materials of packages given to the transporter.

10. The indent.

This is a form of order which is sent to the foreign agents for goods to be imported.

It states the exact details of goods requiring date of delivery, methods of packing quantity of goods, quality of goods the price at which the importer is willing to pay etc.

11. Letter of credit

It is a document issued by the importer by the importer bank in favour of the foreign dealer (seller). It contains an undertaking by the bank concerned that the bill of exchange drawn by the foreign dealer on the importer will be honoured on presentation to the extent of the amount specified in the letter of credit.

INTERNATIONAL COMMERCIAL TERMS (INCOTERMS)

Quotation for the goods imported

The quotation of goods is a reply to an inquiry made by the importer. Special terms called “incoterms” are used in quotation of price in international trade.

These terms include:

◆ EX-WORKS

Price is quoted just when the buyer has to incur all expenses from the place of the producer up to his place of business.

◆ F.O.R (FREE ON RAIL) OR F.O.T (FREE ON TRUCK)

Price includes all expenses until the goods are loaded on rail or truck. The buyer has to pay all subsequent expenses until the goods reach his premises.

◆ FREE ON DOCK (F.O.D)

The price quoted includes ex factory price plus all charges until the goods are delivered at the dock. It includes all other subsequent charges like dock.

◆ **FREE ALONG THE SHIP (F.A.S)**

The price quoted include all charges until the goods are placed at the side of the ship but any other charge of loading etc are excluded.

◆ **FREE ON BOARD (F.O.B)**

The exporter incur all the risk involved in the transportation of goods until they are loaded into the ship the importer takes over from that point

◆ **COST AND FREIGHT (C.F)**

The exporter incur all cost involved in transportation of the goods until the port of destination the importer doesn't pay for the insurance.

◆ **COST, INSURANCE AND FREIGHT (C.I.F)**

The quotation of the price of goods includes freight and insurance charges hence the seller pays insurance premium and transport cost up to the port of destination e.g. c.i.f dsm , but it exclude offloading charges. The exporter is responsible for the cost until the port of destination in addition the exporter pays for the insurance in addition the exporter pays for the insurance.

◆ **COST , INSURANCE , FREIGHT AND FREE OUT (C.I.F.F.O)**

The exporter is responsible for all charge until the goods have been discharged at the port of destination.

◆ **COST , INSURANCE , FREIGHT , AND INTEREST (C.I.F.I)**

The quotation include the interest on the value of shipment when the agent is acting on behalf of the importer, then the agents commission is added and thus(c.i.f.i)

◆ **FRANCO DOMICILE, RENDU OR FREE**

The exporter pays for all costs until the goods arrived at the buyer place of the business.

◆ **DUTY PAID**

The price quoted include the charges plus import duty. It may or may not include the charge for warehousing to the date of withdrawal.

◆ **IN BOND**

It means that delivery is to be made into the customer bonded warehouse at the port of destination but any other charges for withdrawal from there has been borne by the buyer

PROBLEMS OF INTERNATIONAL TRADE

- Geographical distance
- Language differences
- Documentation processing problems
- Cultural and religious difference
- Tariffs / barriers
- Customs regulation
- Monetary system

IMPORT TRADE

What is it?

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Is the purchase of goods or services from other countries.

TYPES OF IMPORT

Import trade may be classified into two parts of:

- Direct import trade.
- Indirect import trade.

Direct import trade.

Is the kind of import on which a person in his own name import goods or services without making use of middlemen. Normally such kind of import will be done for a person own consumption rather than selling

Indirect import trade.

Is a kind of import on which a person purchase goods or services through the use of middlemen, professional importers, import merchants and the like. Normally such kind of import will involve bulk purchase and will be done for the sake of selling in home market.

TYPES OF THE INFORMATION NEEDED BEFORE IMPORTATION

1. To know the procedures and formalities of importing in various countries.
2. To know the culture of people around the world before supplying goods.
3. To know the international exchange rates to achieve profitable transactions.
4. To know the changes brought about weather conditions in various parts of your source of supply/ import.
5. To know the technological changes with regards to the goods you are dealing with.
6. To know the total cost of goods to be imported up to your premises .

SOURCES OF INFORMATION FOR IMPORTER

The following are some of the institutions or organizations which will help importer to get information about import trade

1. Tanzania Chamber of commerce, industry and agriculture (TCCIA).
2. Foreign firms representatives in the country.
3. Board of external trade BET.
4. The consular services.
5. International trade fairs.
6. Newspapers, journals, publications (through advertisement)
7. Visiting various websites.
8. Direct contact with the foreign exporters through several means of communication.

1. Tanzania Chamber of commerce, industry and agriculture (TCCIA): Is an organization which was established in 1988 with the support of the government of Tanzania to strengthen the private business sector throughout Tanzania. TCCIA has members and branches almost in all regions which are autonomous in their operational activities

Services provided by TCCIA

1. Offers expertise in many areas of interest to local businesses through seminars, workshops and training, example seminars as topics of burning issues.
2. Advice: Businesses get advice face to face or forward questions via e-mail.
3. Providing business supportive initiatives which includes business license.
4. Business promoting activities like National and International trade affairs, International delegations these in turn give members the possibility to increase trade opportunities.
5. TCCIA receives a great number of business inquiries from all over the world.
6. Publications: Business information about companies trying to find customers or suppliers are published and distributed to all member.
7. To settle disputes among members.

INTERMEDIARIES IN IMPORT TRADE

- Who are these intermediaries?

These are specialized traders in import trade. They perform the following roles

1. Ordering the goods.
2. Documentation.
3. Receiving the goods.
4. Clearing and forwarding the goods.
5. Distributing the goods.

Who are they?

1. Import merchants.

These are intermediaries who buy goods from abroad in their own name and sell them locally. They maybe wholesalers or middlemen. They normally deal in general merchandise.

2. Import commission agents.

These are traders who import goods at overseas sellers' risk. They are sent consignment by overseas sellers and market they are goods locally at the best price. They are paid commission from the proceeds of sale in an agreed percent. If goods are not sold/ unsold stock, they can return them at the sellers' expense.

3. Import brokers.

These are people who do not buy or sell goods themselves but arrange deals between buyers and sellers. They possess knowledge of available market both locally and internationally and hence connecting the importers with exporters. Finally they are paid commission known as brokerage.

4. Stockist distributors.

These are merchants who are specialized in importing goods of a particular type which are skilled on them. They normally offer other services like “after sale services”, repairs and distribution of commodities to consumers.

Indent house;

is an import agent of a firm who import goods on order received from the domestic buyer. The importer enter into agreement with the indent house for the supply of certain specified goods by filling and signing special forms regarding the full descriptions of goods to be imported.

Manufacturers representatives;

Those traders who represent manufacturers in a foreign country whose duty is to sell manufacturers products in the country they represent.

IMPORT PROCEDURES AND DOCUMENTATION IN TANZANIA

In order to import goods in Tanzania, the following procedures may be followed.

1. Making an inquiry: This requesting information on goods to be imported. This can be made orally, electronically through an internet or by writing a letter.
 2. Contract to buy goods: An importer enter into contract with exporter and receivers a pro-forma invoice.
 3. Applying and obtaining import permit or import license from legal empowered body. Sometimes government permit importation of some goods without import license, such goods are shown in the open in general license (OGL) list issued by the Government from time to time.
 4. Arrangement for payments.
 5. Receipt of the shipping documents and documents of the title.
 6. Customs Clearance: Customs Clearance can be done by clearing and forwarding agents.
 7. Collection of goods: A bill of entry is prepared and submitted to customs officer and goods are released after payments of important duty (if any).
- Bill of entry is a document containing the name of the port of which goods are received, name of the ship, descriptions and value of the goods entering the country.

IMPORT CONTROL.Is a action taken by a country to regulate the volume of goods to be purchased from the foreign country. This will be among the measures to protect the balance of

payment being disequilibrium (unfavourable).

Advantages of controlling imports

1. To protect infant industries at home against imported goods.
2. To make a country self reliant.
3. To reduce the balance of payment problem.
4. To encourage specialization at home.
5. To avoid the entry of harmful commodities into a country.
6. Enable a country to develop its own natural resources.

Disadvantage of controlling imports

1. Resources misuse by protected industries because this will encourage inefficient industry to remain in a business. This results to misuse of resources.
2. Increasing costs: High tariffs on raw –materials imported increase the cost of production while tariffs on finished goods raise prices and cost of distribution which can cause inflation.
3. Encourage poor quality of goods: Protected industries may become careless and produce poor quality products.
4. Protected industries may fail to produce enough to meet demand appropriately hence storage of goods in the local market.
5. Monopoly creation: When the industry is comprised with few organized firms protection may cause monopoly which can lead to poor services delivery.
6. Smuggling: High tariffs encourage smuggling because importers are not willing to pay high tax levied on imported goods.
7. Limited choice to consumers especially for goods produced abroad.

Methods or ways of controlling importation/imports

1. Imposing heavy tariffs: Tax or duty levied on traded commodities crossing the national boundaries.
2. Fixing import quotas: Fixing maximum units or value of goods/services for import allowed.
3. Total ban policy: A complete prohibition of importation of named goods.
4. Exchange control policy: Through the central bank a country restrict among of foreign currencies available for importing goods.
5. Subsidization policy: Government may subsidize domestic producers to enable them to complete with foreign sellers, hence low price for home goods.
6. Adopting devaluation policy: Deliberate action by government to reduce the value of her currency so as to make import expensive.

INTERNATIONAL COMMERCIAL TERMS (INCOTERMS)

INCOTERMS are different price quotations, terms and conditions employed in international transactions specifying who is to incur or not to incur certain duties during

importation of
commodities between the importer and exporter.

IMPORTANCE OF INCOTERMS

- i. They are useful in identifying the duties and obligations of each part i.e exporter and importer.
- ii. They are indicating the lines of demarcation of duties and an obligation i.e where the exporter ends and where the importer begins.
- iii. They are influencing both the importer and exporter to do their utmost to fulfill the terms and conditions agreed upon hence better performance.
- iv. They are governing the methods and responsibilities as well as accountability in affecting payments of costs to be incurred e.g terms of delivery decide who pays the costs of transportation and incidental charges.

The following are some **INCOTERMS**;

- **F.O.R** (Free on rail) â”€ Which include expense of packing and delivery up to the railway station in the exporter’s country.
- **FRANCO** â”€ Include all expenses such as import duty, carriage and delivery charges, dock charges and delivery up to the importer’s premises.
- **F.O.B**(Free on board)â”€ Which include all expenses such as packing, loading charges, export duties etc to be covered by the exporter for taking goods until they are delivered on board the ship.
- **F.A.S** (Free Along side Ship)â”€ The price consists of all expenses such as dock charges packing and carriage to be covered until the goods are placed along side the ship.
- **C.& F** (Cost and freight) â”€ The quotation refers to mean that the exporter bear all expenses of carriage, export duties, freight charges, loading charges, etc except insurance up to the port of destination
- **C.IF** (Cost, Insurance, Freight) â”€ Covering all expenses under C.& F quotation plus insurance.
- **C.I.F.I.**(Cost, insurance, freight and interest) â”€ Covering all expenses under C.I.F quotation plus interest on the value of goods.
- **C.I.F.& E** â”€ (Cost, insurance, freight and Exchange) â”€ Covering all items of expenses under C.I.F risks of exchange fluctuations.
- **C.I.F.& C**(Cost, insurance, freight, interest and commissions) â”€ Covering all expenses as per C.I.F.I quotation plus the commission of importer’s agent.
- **C.I.F.F.O**(Sale Cost insurance freight and free out) â”€ This means that the seller is responsible for all charges until the goods have been discharged at the port of destination.
- **FREE DOCKS** – The price include all expenses until the goods reach the docks.
- **EX-SHIP**(FREE OVERBOARD) â”€ Which include all expenses up to the port of destination.
- **PRICE IN BOND** â”€ Which cover all expense till the goods are delivered to the port of destination.
- **SALE EXGODOWN** (EX WORKS) â”€ It is the responsibility of the buyer or importer to collect the goods from the go down or the works of the seller or exporter by meeting all expenses and take care all risks. It is also called ex- factory.

- **SALE FREE ON WHARF (F.O.W.)** – This is a case where by the seller makes that the goods are transported to the nearest stipulated wharf and incur all the transportation costs up to that port.
- **SALE, COST, INSURANCE, FREIGHT AND FREE OUT (C.I.F.F.O)** – This means the exporter is responsible for all charges until the goods have been discharged at the port of destination.
- **DELIVERY DOCK (DD)** – Include the cost of carriage to the docks.

EXPORT TRADE

This is one of the branch of foreign trade dealing with selling of goods, raw materials or services to foreign countries.

It involves two main types;

- **Direct export trade:** This is when the sellers exports goods themselves it does not involve the use of agents.
- **Indirect export trade:** This is when export of goods and services is through appointed agents who work for a commission.

Advantages of direct exportation

1. It involves the exporter himself and therefore reduce the cost of exportation. In this way exports can be sold cheaply in foreign markets and attract many customers hence big sales and profits.
2. It enables the exporter to be familiar with the changing market conditions, in this case he can export goods more effectively.

Disadvantages of direct exportation

1. Exportation may be done inefficiently as the exporter may not be professionally sound enough to carry out exportation.
2. The exporter has to incur more distribution expenses through the use of intermediaries hence fall in profits and high price of exports which may lead to customers not to buy the products.
3. It does not allow the exporter to be familiar with real export process and actual foreign market environment as most of the tasks are performed by intermediaries.

4. Sometimes these intermediaries (middlemen) perform exportation in efficiently which results to losses to the export firms. It makes the exporter busy in both production and actual selling which can

lead to inefficiency and diseconomies of scale.

Advantages of indirect export

3. High degree of assistance is attained in the process of export from professional export intermediaries hence more success in export business.
4. There is high possibility of establishing and increasing the size of foreign markets through using various intermediaries.
5. Export agents can perform many activities in the complicated foreign markets situations hence helping much in business.
6. Export agents can assist in such activities like repacking and assembling of products which is of great help to producer.

Disadvantages of indirect exportation

vii. INTERMEDIARIES IN EXPORT TRADE

1. Foreign commission agents: These are agents who sell the goods on behalf of the principal and remit the balance of money to the exporter after deducting commission and other expenses by them in the course of selling the goods. They are found in the foreign country where goods are to be sold.
2. Exporters own representatives: These are exporters sales representatives based in the country to which products are to be sold, they collect orders from customers and send them to the exporter for processing according to the terms of each order.
3. Exporters brokers: They assist exporters to negotiate on all terms in exporting the goods in return they are paid brokerage for performing the negotiation. They can be locally based or based in other countries.
4. Marketing boards: They are mainly dealing with agricultural exports, selling produce to the agents of foreign buyers by auction or opening offices abroad to boost export of their produce e.g. coffee marketing board.
5. Buying agents: Many overseas firms have their own buying agents in the country who buy the goods for their firms therefore local producers can sell the goods abroad through them.

IMPORTANCE OF EXPORT TRADE

1. It encourages specialization among countries.
2. It encourages economies of scale.
3. It reduces scarcity of goods.
4. It stimulates international understanding among countries.
5. Enable a country to earn foreign exchange through export duties.

INFORMATION ON EXPORT TRADE

The type of information which are very important before exporting are as follows;

1. Place of export (market).
2. Kind/type of goods to export.
3. Marketing strategies.
4. Procedures and documentation.
5. Rate of exchange e.g. Tshs Vs Kwacha.
6. Distribution channel to be used.
7. Trade policy and restrictions.

THE SOURCES OF EXPORT TRADE INFORMATION

1. Board of external trade (BET): Provides trade information to both local traders and firm intending to buy goods from within the country.
2. Chamber of commerce: This institution can give important information to intending exporters on firms and individuals who want to buy good from the country. Example in Tanzania chamber of commerce, industry and agriculture (TCCIA).
3. Consular offices: Can give intending exporters a list of individuals and firms wishing to buy products from the country.
4. International exhibition: Through which traders can exhibit their products and explain their merits to prospective customers who can place big orders.
5. Ministries: In Tanzania we have the ministry of commerce and industries through its department of external trade which is responsible for promoting exports in the international market. I.e. from this department prospective exporter can get useful information on what to export.
6. Other sources like:

-Reading international business newspapers, publications and magazines.

-Having personal inquiries to prospective importers in foreign countries.

-Visiting websites.

EXPORT PROCEDURES AND DOCUMENTATIONS IN TANZANIA

Every country has its own procedures in exporting goods but having the same use of documents. In Tanzania the following procedures must be carried into force

A. PRELIMINARY PROCEDURES

These are early procedures which includes;

i.Entering into export contract: Importer and exporter have to agree on some terms and conditions then sign the contract.

ii. Receiving an inquiry. The intended exporter receives a written request from a foreign buyer for information regarding the price and all other description on the goods he wants to buy, example quality, quantity, features, time and methods of delivery and payments.

iii. Sending a quotation: The intended exporter sends a document giving descriptions on the goods to be sold.

iv. Receiving indent: After receiving quotation a foreign buyer (if satisfied with terms of sale) makes order by sending indent to the exporter.

An indent is an International order which states the exactly details of the goods required, date of delivery, shipment instructions methods of setting debts.

v. Applying and obtaining export license or permit: Some products require specific permit from the Government departments, institutions or controlling body legally empowered to provide license which allow the exportation according to set government conditions.

vi. Demanding a letter of credit: The exporter should demand a letter of credit from the importer, this letter of credit assures the payment from the importer.

B. EXPORT SHIPMENT PROCEDURES

After the exporter is satisfied with credit worthiness of the intended importer he makes arrangement for the shipping of goods.

i. Arranging for shipping goods: Due to complication in the shipping the goods as per formalities are concerned, exporters can decide to

employ the clearing and forwarding agents. The shipping of goods arrangements includes the following formalities:

- Application for customs permit from customs office.
- Booking space in ship for carrying goods.
- Issue of shipping order. After the terms and conditions of shipment are settled, the shipping company issues a shipping order this is a document evidencing a contract made between the shipping company and exporter or his agent.
- Attending various customs formalities.
- Placing goods on the clock.
- Receipt of the goods by the ship captain or his assistant.
- Sending documents to importer to allow him to collect the goods once they are delivered.

C. SECURING PAYMENT PROCEDURES

The exporter secures payments in settlement of the transactions in one of the following ways of financing foreign trade:

EXPORTER SHIPMENT PROCEDURE

- Bill of exchange.
- By getting a letter of credit issued in favour of exporter by the importers bank.
- Documentary credit.
- Documentary bill.
- Bank draft.

INTERMEDIARIES IN EXPORT TRADE

The common used intermediaries in export trade are;

- Marketing boards.
- Foreign commission agents.
- Brokers.
- Representative offices.
- Buying agents.

INSTITUTIONS INVOLVED IN EXPORT TRADE IN TANZANIA

1.THE BOARD OF EXTERNAL TRADE(B.E.T.)

The board of external trade was instituted in 1997 and started operations in the same year.

FUNCTIONS AND OBJECTIVES OF THE BOARD

1. To provide advisory services in external trade development policies and measures.
2. To provide specialized assistance in the development of export products and technology to improve the quality and quantity of exports.
3. To coordinate and monitor all export management programs including management of export targets and incentives.
4. To provide functional advisory services in such areas as costing and pricing of exports, product adoption, packing for export, trade information, trade publicity, formulation of export marketing policies and plans and trade fair participation.
5. Amelioration of basic infrastructure of export financing transport, fiscal and trade policies and development of export industries.
6. Provision of useful information and education to local businessmen by organizing courses and seminars and assists them by providing in certain cases, export credit guarantee.
7. To arrange exhibitions in foreign countries and inside the country to attract customers for Tanzania products.

ROLES OF THE BOARD OF EXTERNAL TRADE(B.E.T)

The board of External trade was established to perform the following objectives;

1. To help industries find markets for their products throughout the world. It provides assistance increasing and developing Tanzanian exports by actively opening up new markets.
2. To provide overseas businessmen wishing to trade with Tanzania with the information they need. The information provided covers Tanzania's import and export trends.

2.T.P.A (Tanzania Port Authority)

This is an authority which dealing with controlling securities, shipments clearance of goods to and from other countries.

Roles/ Functions

1. To ensure that there is adequate facilities for all cargo(goods) passing through their ports.
2. To enforce securities of cargo in their ports.
3. To ensure a speed, efficiency and smooth flow of cargo from sea transport.

MARKETING

This is a place where buyers and sellers meet and exchange will take place.

OR

Is a relationship that exist between buyers and sellers and no matter they communicate each other.

CONDITIONS (ESSENTIALS) FOR EXISTENCE OF THE MARKET

These includes

1. Existence of commodities.
2. Existence of buyers and sellers.
3. Existence of price.
4. Competition.

TYPES OF THE MARKET

Markets can be classified into 4 groups of 8 types as follows

1. According to type of products exchanged

The following types can be formed

- Primary market.
- Secondary market.

2. According to geographical position of buyers

The following types can be formed

- Local market.
- International market.

3. According to groups of buyers

The following types can be formed

- Consumer market.
- Producer market.

4. According to the time exchange take place

The following types can be formed

- Spot market.
- Future/forward market.

MARKET SEGMENTATION

Refers to the partitioning of potential customers or consumers into group of differentiated submarkets. It involves the following characteristics;

- Cultural grouping.
- Geographical variations.
- Behavioral pattern.
- Social economical variables.

FUNCTIONS OF MARKET

The following are functions performed by market;

1. To facilitate transactions.
2. Source of supply.
3. Provision of contact between buyers and sellers.
4. Stabilize prices.
5. Motivate and increase production.
6. Self employment like entrepreneurs.

MARKETING RURAL PRODUCTS

COMMODITY MARKET

A commodity market is highly specialized market where raw materials are bought or sold on an international level. Different commodities are dealt in different markets, all of which have their own methods of trading e.g tea, and coffee are graded and sold in auction according to their grades. Whereas metals are sold by private negotiations between member brokers are involved in trading to represent buyers and sellers.

The beneficial effects of a commodity market include the following;

-It helps in custom, control over raw materials concentration of demand for raw materials situation of a port or an important trade route and other similar influences. This is due to the act that each of

these markets is centralized or localized in some important city though it embraces world in the course of its operations.

-Also a commodity market provides highly developed facilities not only for gathering together of buyers and sellers but also for fixing prices, grading commodities and the publication of market reports

containing particulars of prices, quantities sold and information which are helpful to participants.

- Most of these markets are conducted on the basis of samples and grade. This enables transactions to be affected by telegrams, letters or by simple reference to the grades or samples.

GENERAL MARKETING OF AGRICULTURAL PRODUCTS

(I) Agricultural products from small scale farmers. Small scale farmers sell most of food crops through either;

a) Directly selling the final consumer or

b) Selling to traders who then sell to final consumers. But most of cash crops from small scale are sold either

c) To the buying agents who then either sell to the marketing board which also sell in both local and foreign market

or

To the cooperatives which then sell in both local and foreign market.

(II)Agricultural products from large scale farmers-Most of large scale farmers sell cash crops to the marketing boards or directly to the foreign

market.Those crops are then sold to processors who then into finished goods which are then sold to final consumers in both local and foreign through wholesalers and retailers.

THEORY OF MARKET

Meaning of market

-Market means anybody a person who are intimate business relations and carry on extensive trans cross in any commodity.

-Market-Is a set of arrangement whereby buyers and sellers come into contact to exchange goods and services.

ESSENTIALS OF MARKET:

1.Presence of a commodity

In the market there must be commodities which have been bought for sale.

2.Presence of Buyers:

The people who are able and willing to purchase the commodities being sold at particular price and time.

3. Presence of seller.

The people who have brought their commodities for sale.

4.Presence of an area(region)

Refer to a particular locality where the transactions are taking place

5.Price

One price should prevail for the same commodity at same time

EXTENT OF A MARKET

Refers to the size of the market. The market may be wide or narrow.

Determinants of the size of the market

1.Character of the commodity

In order to have a wide market a commodity must be (i) portable (ii) durable (iii) suitable for sampling, grading and exact description and (iv) such as its supply can be increased such commodities are

wheat, gold, government securities etc. Bulky articles like brick and perishable articles like fresh fruit and vegetables have a narrow market.

2.Native of demand. A commodity which has universal demand e.g. gold & silver will have a wide market similarly, a commodity of general consumption has a wide market.

3.Means of transport and communication. The size of the market depends upon the extent to which means of communication and transport have been developed. A properly developed transport and

communication system has enabled commodities be carried long distances and establish wide contacts. This has widened the market.

4.Peace and security. Obviously, goods cannot be marketed in places unless peace and order prevail. In war-time, due to insecurity in war zones, markets get restricted. This extent of the market

depends on the peace prevailing in the region.

5.Currency and credit system. If the currency and credit system of the country are well developed marketing can be conveniently and profitably carried on over extensive areas. The extent of the market

depends on the state of the currency and the confidence it inspires.

6.Policy of the state. Market may be restricted by the policy of the state. Prohibitive duties and quotas restrict the market. The zoning system e.g. wheat zones, which allow free movements of goods only

within a certain zone has the same effect. Thus the government policy can also affect the extent of the market.

7.Degree of division of labour. We know that division of labour is limited by the extent of the market. The converse of this is also true. That is the extent of the market also in its turn depends upon the

degree of division of labor the cheaper the articles and wider the market.

FUNCTIONS OF MARKETS

There are several ways of classification of markets. Some of these types are

A. Classification of market according to what is bought and sold

1. Product market: Deals with selling and buying of final goods eg: markets of sugar, rice beans, etc

2. Factor market: Deals with buying and selling of factors of production e.g. labor market, capital market, market for land

3. Financial market: Deals with selling and buying (exchange) of currencies.

The currencies are being sold and bought. Eg. Market for foreign currency in Bureau de change.

B. Classification of market according to the place where the product is bought and sold

- 1. Local market:** This occurs when any commodity is produced and sold on local basis eg local brew like "mbege" is sold around the areas of its production.
- 2. National market:** It occurs when any commodity is bought & sold in the whole country. Eg. a commodity which faces a national market is soap found throughout Tanzania.
- 3. International market:** It occurs when a commodity is bought & sold in many countries of the world eg. medicines fetch international market.

C. Classification of market according to commodity.

1. General market

This type of market occurs when various commodities are bought & sold at any specific area. Eg we can say Kariakoo is a general market.

2. Specific market:

It occurs when only one kind of commodity is being bought & sold at any specific area. Eg. Dar es Salaam stock exchange (DSE) where shares are only bought and sold.

3. Grading market

This is type of market which occurs when any commodity is sold & bought according to its grade.

D. Classification of markets according to future

1. Day to day market:

This type of market occurs when the price of any commodity is determined according to demand and supply condition on any particular day.

2. Short period market:

It occurs when the price of any commodity is determined according to demand conditions of that short period. In the short period the firm can use any of the variable inputs like labor, rent, etc. In this case, the supply can't be increased beyond the existing capacity of the present firms.

3. Long period market:

This kind of market occurs when the price of any commodity is determined according to the long run demand & supply conditions. In the long run period it is to change the amounts of any factors of production such as establishing new firms, constructing buildings etc.

E. Classification of market according to situation & structure of market.

Market is based on the buyers and seller (degrees, types of commodities which are differentiated, and if there are some barriers). Based on this classification market

Types:-

- Perfect market
- Imperfect market

Perfect market.

A market is said to be perfect when all the potential seller and buyer are promptly aware of the price to which transactions take place. This market structure is characterized by the following.

1. Large numbers of buyers and sellers.

Under this there is a large number of seller & buyers of commodity in the market and therefore a buyer or seller cannot influence anything in the market for example the price and the output.

2. Homogeneous Products.

The commodity produced by all firms is totally identical in all aspects therefore a buyer has no specific preference to buy from a particular seller.

3.Free entry and exist.

Any new firm is free to join the market and any already existing firm to leave the market.

4.Perfect knowledge.

All seller and buyer have full knowledge about the market condition for example the price.

5.Perfect mobility of factors of production.

Factors of production such as labor and capital are perfect mobile both geographically and occupationally. Mobility of factors of production is essential to enable firms and the industry to achieve an equilibrium position.

6.Profit and utility maximization.

The major goal of a firm is to maximize profit and that of the buyer to maximize utility.

7.No transportation cost.

Under this market structure is also assumed that there is no transport cost for example in the movement of goods, raw materials and so on. If cost of transport is to be there, the prices must differ to that existing in different sector of the market.

GENERAL MARKETING OF MANUFACTURED GOODS

Manufacturers sell goods to the final consumers in any of the following ways;

1. Selling directly to the final consumers through their own retail outlets.
2. Selling to the wholesalers who then sell to small scale retailers who also sell to the final consumers.
3. Selling to the wholesalers who then sell to large scale retailers who have to sell to final consumers
4. Selling to large scale retailers who then sell to final consumers.

MARKETING

The concept of marketing v/s market

Marketing comes from the term market. Therefore marketing is the total system of interacting business activities designed to a product planning, promotion and distribution which will satisfy present and potential buyers of goods or services to be produced. A person who does marketing is known as marketer.

OR

Marketing is the business process by which products are matched with the market and through which transfer of ownership is affected.

OR

Marketing refers to central activities of commercial enterprises that engaged in providing goods and services to the market.

WHILE

A market is a place where buyers and sellers meet and exchange will take place.

OR

Market is the relationship between buyers and sellers and no matter how they communicate each other.

ELEMENTS OF MARKETING ACTIVITIES

These are the requirements for marketing process to occur. It involves the following

1. There must be two or more parties to be involved
2. There should be needs or wants to be satisfied
3. There should be products or services to be exchanged and create satisfaction
4. There should be something in value to exchange

IMPORTANCE OF MARKETING

Why business firm engage in marketing activities?

The importance of marketing in a business firm can be divided into three aspects as follows

- To the buyers.
- To the producers (suppliers).
- To the nation (country's economy).

IMPORTANCE TO THE BUYERS

1. It helps them to get product they require at the right quality, quantity, place, time and vender (seller).
2. It enables them to get the right information about the product changes, design, views and features.
3. It enables them to get a wider choice (varieties) for the best products among many products of different producers.
4. Enables them to acquire goods or services at an acceptable price.
5. Enable them to benefit from reliable and permanent flow of goods from producers thus stabilize market and price.

IMPORTANCE TO THE PRODUCERS (SUPPLIERS)

1. It helps them to sell their products at the right consumers who are ready to buy and pay the price accordingly.
2. It helps them to get information as regards to product they produce whether liked or disliked, whether fast or slow moving items.
3. It enables them to raise the level of productivity hence achieving economies of scale.
4. It enables them to obtain economic value of goods hence provide the business with potential income and surplus.

TO THE NATION

1. It acts as a tool of economic growth of a country.
2. It offers employment opportunities
3. It brings about the integration of various economic sectors like transport, industries.
4. It makes full utilization of resources of existing assets and other products.
5. It contributes to the development of entrepreneur and managerial class of people.

TYPES OF MARKETING

We may classify market into 3 groups

1. According to demand state.
2. According to the nature of products.
3. According to the firm marketing scale.

ACCORDING TO THE DEMAND STATE

The following types can be found

1. Negative demand.
2. Latent demand.
3. Flattering demand.
4. Irregular demand.
5. Full demand.
6. Overfull demand.

7. Wholesome demand.

ACCORDING TO THE NATURE OF PRODUCTS

The following types can be found

1. Primary marketing.
2. Secondary marketing.
3. Service marketing.

1. ACCORDING TO THE FIRM MARKETING

The following types can be found

1. Macro marketing.
2. Micro marketing.

MARKETING FUNCTIONS

Marketing involves certain activities starting from product designing to after sales services. Marketing function are classified as:

1. Exchange functions.
 - a. buying and assembling
 - b. selling
2. Physical functions.
 - a. Storage
 - b. Transport
- C. Product planning and development
3. Facilitating functions.
 - a. Financing
 - b. Risk-bearing
 - c. Standardisation
 - d. Marketing research

e. Promotion

f. After sales services

1. PRODUCT PLANNING AND DEVELOPMENT

This is the function on which translates the customers demand by making sure production follows market requirement e.g. production of high quality products.

Planning: is the setting out goals which are to be accomplished in future .it can be forecasting the size of the market, sales volume etc.

Development: the conversion of ideas into a physical or recognizable product or improvement over the existing products.

2. **BUYING:** Buying may be done either directly or through middlemen. Through buying the buyer gets the title to the products.

3. **ASSEMBLING:** a collection of goods from different sources at a place for further movements. When goods are bought from different producers scattered over a wide area they are assembled together at a central place.

4. **SELLING:** The primary objectives of marketing is to sell the products at a profit.

5. **TRANSPORTATION:** When there is a distance between the production place and consumption place movements of goods is very essential. Goods are sent to the market through land, sea and air.

6. **STORAGE:** Products are preserved from the time of production to the time of consumption .Production may be during a particular season but demand is regular.

7. **FINANCING:** Funds are required to hold the stocks and to meet the cost of marketing .There are various kinds of finance needed-short term, medium term,longterm and sources are commercial banks cooperative credit societies and other agencies.

8. **RISK-BEARING:** in marketing there arise numerous risk e.g. damage to goods, physical loss, changes in values of goods.

9. **STANDARDISATION:** Division of commodities into distinct groups. Standards are set for providing certain basic qualities to the goods for their use.

10. **PROMOTION:** is a wide term including advertising, personal selling, sales promotion, publicity and public relations.

11.MARKETING RESEARCH: is objective and systematic collection, recording, analysing, interpreting, and reporting about existing or potential markets, marketing strategies and tactics to be applied in different markets.

MARKETING RESEARCH

This is a set of techniques for obtaining, analyzing and collecting information about the market with a view of planning sales in that market

OR

Is an action of finding out ideas of the consumers about what they say on product or services produced and consumed by them

Types of marketing research

1. Desk research: is the preliminary research where analysis of published information is made from materials obtained from different publications such as government publications independent research and institutions.
2. Internal research: This involves analysis of own records related to the performance of business examples production report, sales report and financial report.
3. Consumer research; this is a field survey checking the buying habit and preferences of consumers at the point of sale. it is conducted to obtain the reasons as to what they buy and how they buy.
4. Motivation research: This involves establishing true reasons for buying a product and such reasons help the manufacturers to base their advertisements campaign and improve quality of goods.
5. Product research: It is conducted to determine the acceptability of products in terms of features such as quality, colour, size and tastes.
6. Advertising research: is conducted to determine the popularity and effectiveness of different media. It also provides details about readers, viewers, listeners, and social characteristics.
7. Distribution research: is done to determine (middlemen) are ready (keen) or not ready to distribute manufactured products.

OBJECTIVES OF MARKETING RESEARCH

1. To know what product can be marketed i.e. right quality, type, packing, color etc.
2. To know who are the buyers i.e. age, status, purchasing power, economic group etc.
3. To know how much to be marketed i.e. the amount to be supplied accordingly.
4. To know when goods are bought i.e. the right time to supply the products.
5. To know how can the goods be marketed i.e. the selling techniques to be applied e.g. super markets, peddlers etc.
6. To know who are the competitors and how to compete with them.

SOURCES OF INFORMATION ON MARKETING RESEARCH

What are the sources of information?

The following are the sources of information for carrying out marketing research

- From the buyers (consumers)
- Middlemen (intermediaries)
- Trade fairs
- Trade association
- Chamber of commerce
- N.B.S (National Bureau Statistics)
- Other sources

Marketing research process

What are the steps?

In doing market research, the following process or steps/stages should be followed sequentially

1. Defining the problem and research objective
2. Developing research plan
3. Collecting the information
4. Develop research design
5. Analyze the information
6. Presenting the findings (research report)

WAYS OF CONDUCTING RESEARCH

The following can be used to get information from different sources. It includes

1. Interview
2. Questionnaire
3. Observation
4. Experiment
5. Survey
6. Mailing

RESEARCH SAMPLES

What is research sample?

A sample is a unit that is used to provide data (information) required for the problem researched for. Among the samples to be used include;

- Random sample
- Cluster sample
- Stratified sample

- Systematic sample
- Judgmental sample
- Convenience sample

Merchandising Activities

This refers to all activities necessary to make available to the market goods or services that will satisfy/ fit the needs of consumers and create demand to them. It includes the following activities;

1. Product planning and development
2. Buying and assembling
3. Standardizing and grading
4. Pricing
5. Selling
6. Packing and packaging
7. Sales and promotion

HOW THOSE ACTIVITIES MAKE AVAILABLE GOODS AND SERVICES TO THE MARKET

1.PRODUCT PLANNING AND DEVELOPMENT

Is the strategy used in marketing to identify and design the product according to the buyers needs. Also it involves the process of developing the product into 4 stages of;

1. Introduction
2. Growth
3. Maturity
4. Declining

2.BUYING AND ASSEMBLING

What is buying?

This is the procurement of goods for final re sale to consumers or industrial users. It is a first step in marketing whereby either finished products or assembled items are being done before use

What are the methods of buying?

1. Buying by inspection
2. Buying by description
3. Buying by sample
4. Buying by grade

3. STANDARDIZING AND GRADING

→Standardizing; is the way by which products or services can be measured in terms of weight, length and performance in the market.

→Grading; is the way of measuring the product in terms of quality and use.

What are the advantages and disadvantages of standardizing and grading?

1. It facilitates quality control.
2. Better price can be obtained for a well graded product.
3. Price can be quoted for buyers goods.

4. PRICING

This is the process of setting/fixing amount of money(value) on product or services in terms of standard or grade. The following mechanisms can be used in setting prices of products or services

1. Discounting pricing
2. Loss leader pricing
3. Discriminatory pricing
4. Odd pricing
5. New product penetration pricing

1. Discounting Pricing

Setting a price below the cost in looking about bulk purchase, quick payment, quality and seasonal. Therefore; discount pricing can be

- Trade discount
- Cash discount
- Quantity discount
- Seasonal discount
- **Loss Leader**

Setting a price either at or below cost with the intention of inviting people into the shop where they can buy other goods too.

1. Discriminatory Pricing

Is where the price differ from buyer depending on the frequency for the shop and quantity opt.

2. Odd pricing

Setting a price at queer number (odd number) for example 9'099 or 9'999'999.

3. New product planning

Where the product sold at the highest price when is new in order to gain profit for the newness (skinning the cream).

4. Market Penetration Pricing

Where the product sold at the lowest price when it is new in order to gain famousness.

5. Selling Concept

This is a personal or impersonal process of assisting or persuading consumers to buy a product or services. Normally selling will involve two important things known as

→Branding:Is a process of designing names, marks, symbols, colour which are given to products.

→Trade mark:Is a brand which is given legal protection, it gives exclusives right to the owner to use the brand after it has been registered.

a)Brand

Is a name, symbol, term or design mark, colour or combination of them which is used to identify and differentiate goods or services of one seller to the other competitors.

What are the advantages of branding to consumers, manufacturers, wholesalers and retailers?

To Consumers

- Quality goods are easily available.
- Protect them from price hike (charged more price).
- Stabilized price.
- Branded products are mass produced and are easily available.

To Manufacturers

- Help them to distinguish his products with that of competitors
- Help them in widening and distribution of products with that of competitors.
- Easy to control price in the market

To Retailers and wholesalers

- -Less time is required to sell the product
- -It facilitates the introduction of new product that creates demand (dd)

- -Assure market demand and control market share

NOTE: Trademark is a brand name that given legal protection therefore, all trademarks are brands but all brands are not trademark

6. PACKING AND STORING PACKAGING

What is packing?

This is the wrapping and crating of goods before they are transported or stored in papers, boxes or bags so as to preserve against wastage, spoilage or damage before delivery to buyers

While

Packaging is the placing of goods in small packages like containers, boxes, bottles etc before sell to ultimate consumers

Why do we need packaging and packing? (reasons)

- To protects goods from damage while in transit
- To prevent the volatile products (dangerous) like gas, spirit, petrol from evaporation
- To protects goods against spoilage and leakage
- To protect goods against pilferage i.e minor theft
- To protect the quality of the goods

What are the qualities of good Package (6Ps)?

1. Proportional: size of the package should be proportion to the nature and characteristics of a product.
2. Protection: Package must be designed in a such a way that products are protected from damage, evaporation, spoilage, leakage.
3. Promotion A good package should facilitate advertising and sales promotion and be able to be used in displaying.
4. Presentation; A package should be presentable in the eye of the customers.
5. Preservation; A package should be maintain quality of product over fairly a longer time.
6. Portable; A package should be made of materials that can facilitate handling transport and storage of a product e.g. light but durable material.

What are the advantages of packing and packaging of goods?

1. It possess product prestige.
2. It stimulates demand of prospective consumers.
3. It creates product differentiation in the market.
4. Protects products on their way to consumers.
5. Packages ensure hygiene.
6. Packed products are convenient to carry.

7. SALES AND PROMOTION

This is the way of motivating sales by applying different tools so as to attain higher turnover of product and getting better profit. It includes the following tools

1. Personal selling
2. Free sample
3. Gifts and rewards
4. Trade fair
5. Publicity
6. Advertising

What are the advantages of sales promotion?

1. To make product get market
2. To increase turnover
3. To create awareness
4. Increase market share

PHYSICAL DISTRIBUTION

Is the element that makes the product flow smoothly from where it is produced to where it is consumed in the market. Physical distribution will involve 2 important things

1. Storage
2. Transport

AUXILIARY SERVICES

These are activities that help marketing process to be effective. It includes the following

1. Marketing finance
2. Marketing risk

Marketing Finance

Marketing activities will involve the use of capital to meet financial requirements

The main source of finance in marketing will be bank credit and trade credit

marketing risk

Are the elements of uncertainty that may bring loss in marketing. It includes some unpredictable events in future that may create disturbance in marketing. These can be;

1. Fall in demand of products

2. Change in market condition
3. Human elements

How to protect marketing from risk?

There are two measures on which can be applied to preserve or minimize risk inn marketing in a form of shifting or dividing the risk. It includes the following measures;

1. Through insurance
2. Through contract or purchase and sales
3. Through hedging
4. Through speculation

MARKETING MIX (4Ps)

These are tools necessary to make and implement plans to decide what offer to the market, how much to offer and how to do so.

Also Marketing mix refers to description of combination of the four inputs which constitute the core of company's marketing system, thus it is combination of the product, the distribution system (place), the price structure and the promotion activities.A brief description of the four elements of marketing mix (4Ps) is

1. Product; Anything that can be offered to a market for attention acquisition, use or consumption and that which might satisfy a wants or need. It includes physical goods and services.

2. Price; is the value of commodity in terms of money. It is the amount of money which is needed to acquire or exchange of a product and its accompanying services.

3.Place (distribution system);it is the movement of right quantity of goods to a right place at a right time .this is physical distribution of products from where it is produced to where it is consumed.

4Promotion;is the communicating information between sellers and potential buyers with the aim of influencing altitude and behavior .It is a task of informing customers that a particular product is available at a particular place at a particular price and stimulating them to buy.

COMPONENTS (elements, essential) OF PROMOTION OR PROMOTIONAL MIX OR TOOLS

1. Advertising; A paid form of non-personal presentation of ideas, goods or services by an identified sponsor.

Main features of advertising

a.A paid form of communication

b. Non-personal presentation i.e. No face contact between advertiser and customers.

c. It must be issued by an identified sponsor

d. Purpose is to sell something being a product, service or idea.

2. Publicity; this is free advertising through the mass media used by a company to attract public attention. A firm uses unpaid features in the media to publicize their products.

Advantages of publicity

a. The company incurs no cost for the publicity.

b. It builds the seller's image and goodwill.

c. It has wide coverage due to the use of mass media

d. It is credible as it is reported independently.

Disadvantages of Publicity

a. The media may relate negative information about the business to the public.

b. It is short lived and thus it may be missed by the target group.

c. Only a portion of the information given by the seller may appear in the media or information may be twisted to suit the media's objective.

3. Sales promotion; this refers to strategies or methods used to encourage customers to buy a product. They are directly aimed at increasing the sales of a product.

The methods used include/Forms of sales promotion

- i. Trade fairs and exhibitions. Events at which different producers and suppliers show and sell their products to the public. Goods are demonstrated and there is immediate feedback from customers.
- ii. Direct mail. This refers to the use of letters, postcards, greeting cards, catalogues or any other printed matters to get in touch with customers. It is more effective if the right audience is targeted.
- iii. Free Samples. These are representative products of what is actually being sold. They are given to customers to try out or use free of charge. The assumption is that the people who try out such products will actually purchase them in future.
- iv. Displays. This is a systematic and attractive arrangement of products that are sold in a shop. This creates ease when selecting what to buy. Most displays use color and designs to attract customers.
- v. Credit facilities. Traders normally offer trusted customers credit facilities to encourage them to buy more products. Credit facilities enable the seller to increase sales.

- vi. Discounts. Sellers reduce the prices of some products to encourage customers to make large purchases.

Advantages of sales promotion

- a. The strategies used directly target customers.
- b. It provides customers with an opportunity to see test the products before deciding to buy.
- c. It results in increased sales.
- d. It convinces more people to become users of product thus expanding the market.

Disadvantages of sale promotion

- a. It can be expensive e.g. use of free sample and gifts.
- b. Credit facilities may result in bad debts.
- c. Some strategies such as trade fairs displays require a lot of time and some cases the services of specialist such as interior designers and technicians. Personal selling (salesmanship).

4. Personal selling (salesmanship) Is the process of assisting and persuading people to buy products in a face to face contact. It involves a direct and personal contact between the buyer and the seller or his representatives. Is an act of presenting a product or services so that the customers appreciate the need for it. This method promotes products using sales persons who approach potential customers and educate them about price, quality and use of a product.

PRODUCT LIFE CYCLE

Is a graphic depiction of a product sales history from its marketing inception to its withdrawal from the market. It recognizes different stages in the sales history of the product. Product life cycle is a product life in a particular market. It may be short for some products and long for some other products. Product life cycle is associated with opportunities and problems with respect to marketing strategies and profit potentials. Product life cycle is very useful in formulating better marketing plans.

A. Introduction stage; this stage starts when the new products is first made available for purchase.

Characteristics of introduction stage

1. Profit can be negative or low because of low sales and heavy distribution and promotion expenses.
2. High price to cover cost.
3. Few competitors since the market is not ready for product varieties.
4. Usually high income earners are focused.
5. Low output and technological problems.

6. Informative promotion.
7. Pricing strategies used are skimming pricing strategies and or penetration pricing strategy.

B. Growth stage; this is the stage when sales and profits increases rapidly due to new users and move repeat buyers (people who have tried the product and being satisfied buy it again)

Characteristics of growth stage

1. More competitors are attracted by large profit.
2. Promotion emphasize on comparing the benefits of its product with competitors
3. Wide distribution as possible.
4. New product features are introduced by competitors.
5. Market expands.
6. Sales increase.
7. Increased numbers of distribution channels due to increased customers.
8. Prices may fall due to increased competition.
9. Promotional expenditures are maintained or increased.
10. Profit increases.

C. Maturity stage; this is a period of slow down and levelling in sales and profits. This stage often lasts longer than the previous ones and it presents plenty of challenges to marketing managers.

Characteristic of maturity stage

1. More competitors (very high competition).
2. Low sales and profits.
3. Price can be reduced.
4. Increasing advertising.
5. Products modification.

D. Declining stage; this is the last stage where sales of most products and brands eventually decline. It involves dropping a product from the product line i.e. a weak product identified and dropped

Characteristics of declining stage

1. Low level of sales and profits as competitors take.
2. The market with newly introduced products.
3. Lowered price.
4. Reduced promotion.

Advantages of product life cycle

1. It helps the marketing manager to know the expected profit at each stage.
2. It facilitates the formulation of marketing strategies at each stage.
3. It facilitates economical allocation of resources to different products in a firm.
4. It assists marketing managers to predict levels of sales.
5. Distinct stages of product life cycle (PLC) help marketing managers to recognize opportunities and challenges in the sales history of the product.

BUSINESS UNIT

This refers to firm or organization set up to carry out some production activities such as provision of goods or services in order to achieve higher turnover, consumers satisfaction, low cost and maximize profit.

OR:

Is an institutional arrangement to conduct one or other type of business activity.

A business unit is sometimes called an enterprise, a firm or business organization. It is formed and owned by groups of people or by individuals, with the aim of making profit.

FORMS OR TYPES OF BUSINESS UNITS(UNDERTAKINGS)

There are two types of business ownership:

- (i) Private owned (private sector)
- (ii) Publicly owned (Public sector)

Private sector. This consists of businesses owned by private individuals, either as sole traders or as a group.

Businesses in this sector include:

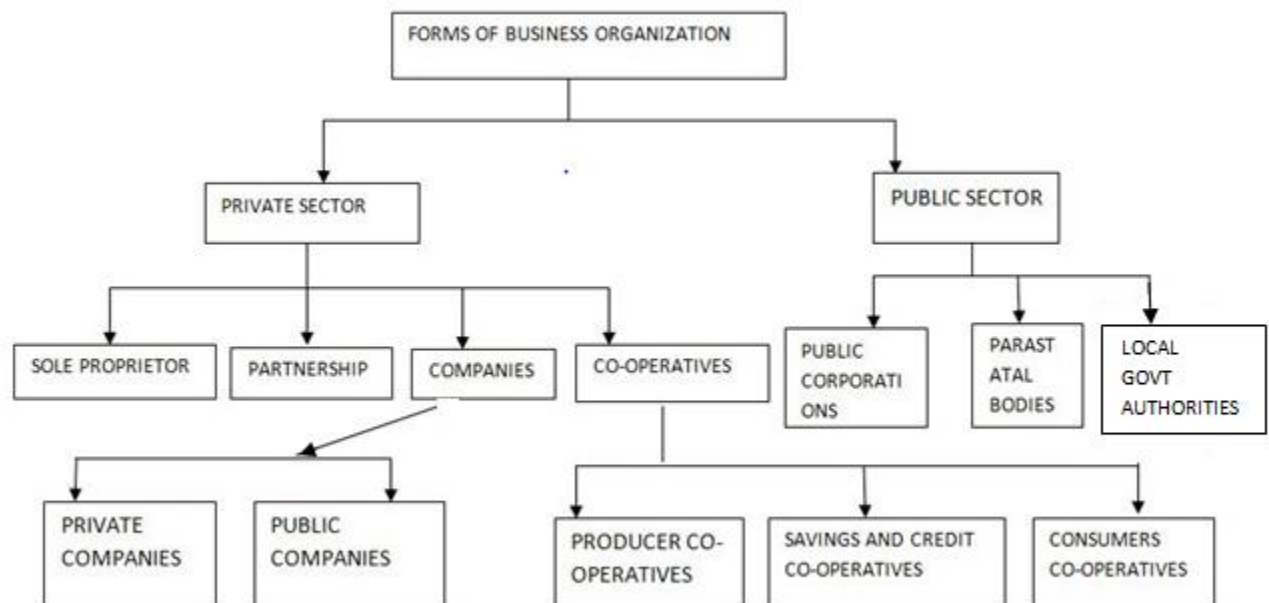
- Sole trade or sole proprietorship
- Partnership
- Joint stock companies and
- Cooperatives

Public sector. This consists of businesses owned wholly by the government or they are semi-government.

Businesses in this sector include:-

- Parastatals
- Public corporations
- Local government authorities, e.g. city council
- Municipal council and town councils and nationalized industries.

Various forms of business organization may be classified as under.



Factors influencing the size of business units

The size of business units can be large, medium and small business units.

Factors:

1. **Nature of industry.** Businesses which require heavy capital in terms of machines and other technical equipments are termed large scale businesses.
2. **Nature of demand.** If the nature of demand is steady and the product is more or less standardized the business undertaking is likely to be large.
3. **The size of capital.** If the capital invested is heavy the business unit is likely to be big rather than if the capital is small or little amount.

Factors influencing the form of business ownership.

- Ease of formation
- Amount of capital required and the method of raising capital to be adopted
- Managerial ability of the owner
- Rights of the members to manage the day to day business
- The extent of risk involved in running business
- Continuity of the organization (prospects)
- Maintenance of business secrets
- The extent of government control.

1. SOLE TRADE/ SOLE PROPRIETORSHIP

This is a business organization owned and operated by one person who raises capital either from his own resources or who may borrow from friends or banks, but cannot appeal to the public to subscribe. The owner is responsible for the success or failure of the business

OR

Sole proprietorship can be defined as a type of business organization in which one person owns, controls and control and operates a business to earn profit.

Distinguished features/characteristics of a sole trade/sole proprietorship.

The main characteristics of sole proprietorship are as under.

1. **Ownership.** The ownership of the business unit is by one person
2. **Management.** In sole tradership, the owner is the active manager of the business unit. If the business is large, he may deligate some of the powers to his trusted employees. However, the final authority and overall control of policy is retained with the proprietor.
3. **Finance.** The capital necessary for operating the business is normally provided by the owner himself. However if additional funds are required, the capital can be increased by borrowing.

4. **Size of the business unit.** The size of business unit is usually small.
 5. **Risk.** The sole proprietor operates the business for his own personal interest. Therefore, he is responsible for all risks of business.
 6. **Unlimited liability.** The liability of the sole proprietor is unlimited. In the event of insolvency of the business, he will be responsible for making good the deficiency from his personal wealth even to the extent of selling his personal assets.
 7. **Entity.** The business is not a separate legal entity from the sole trader. It means that by law the business and its owner is treated as one.
 8. **Freedom of action.** Sole trade can take prompt and immediate action within a legal frame work.
 9. **Continuity.** The continuity of the firm is based on the health of the owner.
 10. **No legal formalities.** There are no legal formalities to set up the business. However, there may be legal restriction on the setting up of a particular type of business.
 11. **Profit.** As the owner bears full risk of the business, he therefore, retains all profit with him.
- Formation of a sole proprietorship business.**

When an individual plans to start a business, his/her main objective is to earn profit. But there are number of factors to be taken into consideration. For example, for any business to be successful.

Planning and research. Proper planning and research is very essential before the business is formed.

Kind of goods or services to be traded. A sole proprietors should be clear about the kind of goods or services he/she wants to deal in.

Capital or investment. The kind of capital or investment available to start the business must be taken into consideration.

Size and nature of the business. The sole proprietor should know the size and nature of the business so that the required amount of capital can be raised.

Location of business. Many business **have** failed or succeed depending on the location. This again depends on the nature of the business.

Legal formalities. These include registration of the name of business, licenses and some other requirements depending on the kind of business.

Risk. Also the sole proprietor should know the risks involved in the particular type of business.

Kind of customers. The sole proprietor has to know the kind of customers the business is targeting, for example it is the students, low income earners of high income groups.

Time factor. This is also important because every business has a low or high season. For example a shop dealing in school books or uniforms will do good business during the back to school season. Those dealing in clothes and shoes will do good business around festive seasons like Christmas.

Competition. During festive seasons like Christmas almost every business has competition from other people dealing in the some kind of goods or services. Therefore before starting a business it is very important to know the competition and how it will affect the business.

Management of sole proprietorship

In sole proprietorship the owner is usually in charge of day to day running of the business. If the business is large he may give some duties to his trusted employees or family members but the overall control and decision making powers rests with the owner. The sole proprietor decides on how to manage the business in the most effective way. If his decisions are good the business will prosper and if they are bad then it will adversely affect the business.

Some of the policies which are decided by the proprietor

- (i) The time of operating the business
- (ii) Promoting through advertising or special offers
- (iii) Dealing with suppliers and customers
- (iv) Bank transactions
- (v) Whether to open other branches or remain in one premise.
- (vi) Future planning

Sources of finance for the sole proprietor

For any business to start, availability of capital is the most important factor without capital it can be very difficult for a new business.

Some of the sources of capital for a sole proprietorship business are:-

- (i) **Savings.** Some people plan in advance to start a business and for that they start saving in order to accumulate the required amount.
- (ii) **Assistance from friends and relatives.** Some people ask their near and dear ones for some assistance in the form of money to start a business. They either agree to return the money and sometimes they are given as a donation.
- (iii) **Proceeds from a sale of asset(s).** This is a common way of raising capital to start a business. For example, if a person is intending to start a business has a house or a car then he or she can sell that asset and use the money to start a business or expand the already existing business.
- (iv) **Bank loan.** A sole proprietor may apply financial institutions. But this can be difficult at time because a bank requires security against the loan and some time an individual who plans to start

a new business may not be able to fulfill the requirement. A security can be in form of property or shares.

(v)**Credit.** Some people know big companies dealing in certain kinds of products and they can approach them to give them goods on credit. This normally happens person to person. For example, an individual has some friends or relatives who are either working in or owning on manufacturing or a wholesale business. Such people can help the trader to get goods on credit but this is usually based on trust. It is very important for the sole trader to have strict control and discipline so that he can sell and pay back for those goods at an agreed time. In this way his credit ratings will improve and he can expand business.

(vi)**By ploughing back the profits.** The business itself by ploughing back the profit.

(vii)**Finding by NGO's.** There some Non-Government organizations which helps some people to start a business by providing capital assistance.

Closure/dissolution of sole trade business

This is the termination of the legal life of the business or end of the business

A sole trade may come to an end due to the following reasons:-

(i)By voluntary decision to do so

(ii)Death of the sole proprietor will cause an end to the business

(iii)Bankrupt. When a sole trader becomes bankrupt may cause an end to the business

(iv)Involving in illegal business. If the sole proprietorship is caught dealing with illegal business e.g illegal drug, pedding or when the sole trade becomes unlawful due to changes in the law.

(v)Transfer of the business by the owner to another party.

(vi)Persistent losses incurred by the business.

(vii)Government policy that venders the activities of business illegal.

Merits/advantages of soletrade.

(i)**Simplicity of formation.**A person can undertake any lawful business activity for profit motive. The person has to develop an idea set the goals and then develop it into a profitable operation.

(ii)**Personal incentive.** A sole proprietor takes personal interest for the success of a business. In this way, he can maximize his profits.

(iii)**Close supervision.** A sole proprietor can supervise his business closely and he has direct contact with employees.

(iv)**Need for small capital.** It is easier to set up since it does not require a lot of capital.

(v)**Business secrets can be preserved.** Unique clues of business developed by his fact, foresight can be preserved and these secrets may remain unknown to competition and others.

(vi)**Quick decision and prompt action.** The sole proprietorship need not consult others or seek their approval. Quick decisions and prompt actions help to improve efficiency of business operation.

(vii)**Flexible.** A sole trade can make a major policy decisions change the nature of the business or its premises easily.

(viii)**Economy in size and operation management of sole proprietorship is not expensive.** The proprietor controls all the activities with much each and may sometimes operate without the need of assistants or if any are few numbers.

(ix)**Close contact with customers and employees.** A sole proprietorship due to its size is in a position to maintain close contacts with his customers and employees.

(x)**Economic and social utility.** It provides opportunity for gainful employment to person with limited capital. Also it enables individuals to earn a living independently using his still and professional drive.

(xi)**Sole authority.** The proprietor being the sole authority, takes decisions of planning, organizing, staffing, coordinating, controlling and directing of business unit.

(xii)**A sole trader takes all the profits and bears all the losses.** This provides to a sole trader the high degree of incentive. Hard working can benefit a sole trader and mistakes can ruin him/her.

(xiii)**Easy of dissolution.** A sole proprietorship can easily be dissolved as no legal procedures are involved in it. Satisfaction of the creditors is the only claim in winding up the business.

(xiv)**Location.** This type of business is not limited to urban centers. It can be set up even in remote area where a large business would not be quite as profitable or easy to establish.

(xv)**Minimum legal restrictions.** An individual enterprise is easy to form and simple to run as minimum legal restriction are imposed on it.

Demerits/Disadvantages or limitations of sole proprietorship.

There are certain serious disadvantages which a sole trader has to face in operating the business. These limitations are as follows:-

(i)**Unlimited liability.** The proprietor is personally liable for all the debts of the firm. Fear of loss of personal property due to failure of business makes the proprietor very cautious and conservative. As a result a business may fail to grow and keep pace with new development in its particular field.

(ii)**Limited capital.** Financial resources of a sole proprietorship/sole proprietor are limited to what one person has. Funds of an individual person are basically not enough to operate large scale business

(iii)**Limited managerial ability.** A sole trader relies upon his or her own skills and judgment for operating the business. Most of the proprietors do not possess all the management skills required for financing, marketing, purchasing, producing and supervising the business.

(iv)**Doubtful continuity.** Business may come to an end or a stand still due to illness, insolvency and death of proprietor. His successor may not be capable enough to carry the business successfully.

(v)**Limited scope of expansion.** Due to limitation of capital and management sole proprietorship business cannot grow and expand to a large size. Its goodwill and bargaining position are also weak.

(vi)**Overworked.** The proprietor is overburdened with so many tasks i.e. financing, managing advertising, and correspondence, accounts, records, etc.

(vii)**Unable to carry out research.** The smallness of the capital and the fear of risks of loss may stop the owner from carrying out the market research which would prove more paying.

(viii)**Poor decisions may be made.** One person is responsible for making decisions and may not have anyone to consult.

(ix)**Dependency.** The life of the business depends on the ability and life of the owners i.e. his/her death brings about the end of the business

(x)**Lack of collateral security.** A sole trader cannot easily acquire loans from the bank and other financial institutions because he/she has no collateral security e.g. land title. Therefore, he/she always operates on a small scale thus does not enjoy the benefits of large – scale operations.

(xi)**Losses falling on owner alone.** A sole trader bears all the risks and suffers all losses of business alone because he/she has no partner to share the business burden with.

(xii)**Inefficiency.** The sole trader may sometimes be inefficient as he/she may not be always available for his customers.

(xiii)**Low discount given to sole trader.** Small sole traders will not receive useful discounts when purchasing materials or goods for resale, because unlike large organizations, they cannot buy in large quantities.

Conclusion. By examining the merits and demerits of sole proprietorship, one can easily conclude that this form of business organization is most suitable in the cases:-

1. Where the business is carried out on small scale, and the capital to operate is small
2. Where there is ease of organization, and the owner can make independent decisions
3. Where the customers have individual tastes and require personal attention.

2. PARTNERSHIP

Partnership is a relationship between two or more persons carrying on a business in common and sharing the profit or loss in agreed proportion. The liability of partner is unlimited unless the partnership agreement provides for any limitations.

Features or characteristics of partnership

1. **Agreement.** There must be an agreement which forms a basis of the partnership business. The agreement may be express or implied.
2. **Lawful business.** The agreement must be to do business with a view to get profit and such a business must be within the limits of law.
3. **Sharing profit.** Profit should be shared equally or according to agreement. In case of loss partners have to share it too.
4. **More than one person.** There must be at least two persons to form a partnership and should not exceed ten (10) in case of banking business, there is no maximum limit for professional partnership like lawyers, etc.
5. **Mutual agency.** Every partner is an implied agency of the other partners and of firm, i.e. each partner is bound by the acts performed by other partners on behalf of the business.
6. **Restriction on transfer of capital.** No partner can transfer his partnership rights to another person without the consent of all other partners.
7. **Unlimited liability.** Each partner has an unlimited liability to the extent of the firm's debts, i.e. if the assets of the firm are inadequate to meet its debts in full even personal assets of partners can be used to satisfy claim.
8. **Utmost good faith.** Partners are required to act in utmost good faith in business and render true accounts to the firm.
9. **Capital contribution.** The capital is contributed by partners.
10. **Partnership has a limited life i.e.** it may be ended any time by the death, withdrawal, bankruptcy or incapacity of any partner.

Types of partnership

There are four types of partnership.

1. **Temporary partnership.** This is a partnership formed for either a specific period or a specific purpose. Purpose and at the end of agreed period the temporary partnership is dissolved or after accomplishment of stated purpose. Example. A partnership formed for five years or for construction of a certain road. A temporary partnership is also called a joint venture or particular partnership. Partners of a temporary partnership have unlimited liability.
2. **Limited partnership.** This is a type of partnership formed when partners have limited liability. All contribute capital during the formation but one partner actively manages the business and has unlimited liability and he is given greater powers and responsibilities in the business.
3. **Ordinary/general/unlimited partnership.** This is a partnership where partners contribute capital and they all have unlimited liability i.e. if business funds cannot meet the debts the personal property of the partners is sold off to settle the debt.
4. **Permanent partnership.** This is the type of partnership formed to last forever. If a partner dies a new partnership deed is drafted and the business continues. Permanent partnership is also called partnership at will

Distinction between Limited partnership and General partnership

Limited partnership	General partnership
1.Only general partner has unlimited liability, others have limited liability	All partners have unlimited partnership
2.Limited or special partner cannot take active part in the management of the firm	Each partner take part in the management of a firm
3.Death, Lunacy or bankrupted of limited partner does not affect the continuity of the firm	Death, lunacy or bankruptcy of a partner dissolves the partnership
4.It must be registered	Need not to be registered
5.Its partnership must be in a written form	The partnership deed does not necessarily be in written form

Sources of capital

The major sources of capital for a partnership is the partners contribution. Other sources are

- (i) Commercial banks and other financial institutions
- (ii) Trade credit from suppliers
- (iii) Re-investing profits obtained from the business
- (iv) Hire purchase
- (v) Leasing the business properties
- (vi) Loan from non-governmental organizations (NGOS)

Formation of Partnership:

A partnership is usually set up using a **Partnership deed/Agreement**.

A Partnership deed or Agreement is a written agreement prepared by members who wish to start a partnership business. It contains terms and conditions made between partners to govern both the partners and the firm. It is an important tool in handling disputes, misunderstanding and disagreements in the course of running the business. It must be signed and made available to all partners and Notary public. The terms and condition in such agreement is called “**Articles of partnership deed**”.

Contents of partnership deed

1. Name, address and occupation of each partner.
2. Name, address of the business and its location.
3. Rights and duties of each partner.
4. Salaries to be paid to partners if any.
5. The rate of interest to be paid on capital, drawings and loans allowed to the member.
6. It states the procedures when a partner decides to retire.
7. It states when and how books of accounts are to be kept.
8. It states the procedure of electing the management committee e.g. through voting.
9. States the procedures to be followed when solving disputes or misunderstanding among partners.
10. States the procedure for admission of a new partner.
11. States the status of each partner in the firm eg. Dormant, minor or quasi partner.
12. States the duration of partnership. If it is temporary partnership.
13. It shows capital to be contributed by each partner.

14. States the procedures to be followed when dissolving the partnership.
15. States the purpose for which the partnership business was established.
16. States the ratio in which profits and losses would be shared by the partners.

Note:

If a partnership deed does not exist the provisions of the **Partnership act of 1890** are applied.

Contents or clauses of the partnership act of 1890

1. States that no salary is paid to any partner.
2. Profits and losses are shared equally.
3. No interest is allowed on capital contributed by partners and on drawings.
4. Partners have equal participation in matters of the business eg Decision making.
5. Decisions to be made are based on majority vote.
6. The nature of the business should not be changed without the consent of partners and the registrar of business.
7. Books of accounts should be kept at the main office and every partner has the right to inspect them.
8. No partner should carry out any competing business with the partnership
9. Every partner has the right to conduct business on behalf of the firm
10. In case of disagreement decisions may be taken by majority of the partners.
11. Interest of 5% is to be paid on any loan advanced by a partner to the business.

Registration of partnership.

The following documents have to be filled to the registrar before the issue of the certificate of registration

1. A statement which is made in a form including details on:-

(i) Name of the firm.

(ii) Place of business.

(iii) Names in full and permanent addresses of the partners.

(iv) Duration of partnership where necessary.

2. The partnership deed duly prepared and signed
3. A receipt for fees paid for registration.
4. A trading license

Types of partners:

Partners are classified according to activity, capital contribution, age and liability

1. **By activity**

(i)**Active partner.** This is a partner who plays an active part in the day to day running of the business.

(ii)**Dormant partner or silent partner or sleeping partner).** This is a partner who does not take an active part in the running of the business.

2. **By age.**

(i)**Minor partner.** This is a partner who has not attained the age of majority eg 18 years in East Africa. A minor partner share profit but not losses and has limited liability she/he cannot be elected on the management committee of the business.

(ii)**Major partner.** This is a partner who has attained the age of majority. She/he is actively involved in the management of the firm and liable for the debts incurred by the business.

3. **By liability**

(i)**General partner/ ordinary partner/unlimited partner.** A partner whose liability is unlimited. Limited partner/special partner. This is a partner whose liability is limited.

4. **By capital contribution**

(i)**Real partner.** This is a partner who contributes capital and whose name may be used in business transacting undertaken by the firm

(ii)**Nominal partner.** This is a partner who does not contribute capital into the business but allows the business to use his or her name for prestige.

(iii) **Quasi partner.** This is a partner who has retired from active participation in the business but whose capital is retained as a loan on which she receives interest.

(iv)**Partner by estoppel.** This is a partner who does not contribute capital to the business but has interest in the business. His behavior makes him appear to be closely related to all partners, this makes people believe he is a partner. He is not entitled to profit or loss, also has nothing to do with the liability and management of the business.

5. **By existence**

(i)**Retired/outgoing partner.** This is a partner who has withdrawn from the partnership. He withdraws his capital from the partnership.

(ii) **Incoming partner.** This is a partner who is administering as a partner in the existing partnership business.

Rights and duties of partners

Duties of partners

1. Every partner is bound to carry on the partnership business.
2. Every partner must act faithfully with respect to other partners.
3. Every partner is bound to indemnify the firm for any loss caused by his neglect or fraud.
4. If a partner has a private business that competes with the partnership all profits made by him should be surrendered to the partnership.
5. No partner can transfer or assign his partnership interest to another person without the consent of the other partners.
6. Every partner is expected to carry on business of the firm whenever called upon.

Rights of partners

1. Each partner has a right to take part in the management of the business.
2. Each partner has a right to be conducted on all matters effecting the business.
3. Each partner has a right to access to all the records of the business eg. Financial statements of the business.
4. Every partner has a right to be consulted before a new partner is admitted.
5. Every partner is a joint owner of the partnership property.
6. Every partner has a right to retire in accordance with the partnership deed.
7. No partner may be expelled without dissolving the partnership.

Advantages of partnership

1. **Promotes specialization.** Duties are allocated according to the expertise or skills of the partners. This allows for effective running of the business.
2. **More capital.** Partners come together and contribute capital to start and operate a business. This enables a business to expand.
3. **Losses and liabilities are shared among the partners.** This reduces the burden to every person contributing to the payment of the debts.
4. **Relatively few legal requirements** are to be fulfilled to form a partnership.
5. **Borrowing.** Partnership is regarded as good credit by banks because it operates on a large scale and has valuable assets.
6. **Flexibility.** Partners can easily change the line of business to another if they hope to get high profits.
7. **Better decision are arrived** at due to consultations among the partners.

Disadvantages of partnership

1. Partners have unlimited liability except for limited partners.

2. Decision making may be delayed due to consultation.
3. A partnership has limited life as it depends on the continued relationship of the partners.
4. Partners have to share profits thus each gets a fraction of the total profit.
5. Partners may have different needs this leading to disagreement.
6. Action taken by one partner is binding to all others even if it is adverse.
7. A hard working partner is not rewarded accordingly as profits are shared equally or according to capital contribution.
8. No transfer his capital to another person without the consent of all partners.

Dissolution of a partnership.

This refers to the process of bringing the partnership to an end. A partnership may be dissolved due to the number of reasons or circumstances.

1. **Dissolution by the partners.** This is where dissolution is determined by the actions of the partners.

(i)When the duration stated in the partnership deed has expired.

(ii)Mutual agreement when the objectives for which the business was formed have been achieved.

(iii)Withdrawal of general partner from the partnership and notifies other partners in writing on his intention to dissolve the partnership.

2. **Dissolution by court order.** (Judicial decree) a court may dissolve a partnership for the following reasons:-

(i)Permanent insanity of a general partner.

(ii)Permanent inability of a general partner to fulfill his or her part of partnership agreement.

(iii)Unfavorable conduct of a partner e.g. fraud.

(iv)Internal disagreement among partners.

(v)Partnership operating at a loss.

3. **Dissolution by the law.** Some events are recognized by the law as grounds for the dissolution of a partnership

(i)Death of a general partner

(ii)Bankruptcy of a general partner

(iii) If an event occurs that makes the partnership unlawful e.g. If a law banning the activities carried out by the partnership is passed.

Differences between sole proprietorship and partnership

Sole proprietorship	Partnership
1. Formed of one person	Formed of 2-20 persons.
2. Owner is responsible for all debts	Partners are responsible for all debts
3. Business can be closed at any time	All partners have to be consulted before the business is closed down
4. Difficult to obtain loans because there is no collateral	Easier to obtain loan because there is large capital base and assets to act as collateral
5. No continuity-If owner dies the business could cease	There is continuity because there are several partners to keep business running
6. Owner has to do all the work	Partners can share work and as they all have different skills
7. Easy to make decisions as only one person is involved	Decisions take longer as all partners should be consulted
8. Difficult to expand the business due to limited capital	Reasonable amount of capital which makes expansion possible

LIMITED COMPANIES /JOINT STOCK COMPANIES

Definition:

A joint stock company is a corporate association or group of people who combine capital to form a business with the aim of earning profits.

A company is a corporate body that is it is created under law and has an entity of its own, quite separate from the member that comprises it.

A company is a fictitious /artificial person that can enter into contract incur liabilities, sue others, be sued by others and do anything for which it has formed.

Definition of A Limited Company

A company is an association of persons binded together for some particular object usually to carry on business with a view of making profit, but in the name of company which itself has a separate legal existence apart from shareholders.

A company must have members called shareholders or stockholders.

OR

A company is an artificial person created by law with capital divided into transferable shares or stocks and with limited or unlimited liabilities possessing a common seal and perpetual succession (continuous existence).

MAIN FEATURES / CHARACTERISTICS OF A JOINT STOCK COMPANY

The definition of the company brings out clearly the distinctive features of this form of commercial organizations as follows:-

(a) Legal personality

Being association of persons created by law a company has an Entity separate from shareholders and therefore:-

- (i) It can hold property.
- (ii) Contract debts in its own name.
- (iii) Enter into contract with other organizations and individuals as well.
- (iv) Can be sued and can also sue in its own name.

However a company is only an artificial person and hence does not all the personal rights of natural person i.e can not marry, enter into partnership and can not committed for imprisonment.

(b)Capital divided into transferable shares.

The capital of a company is divided into a number of shares and each share is transferable without the conset of other shareholders with the exception of private company where there is certain restriction in the transfer of shares.

- Shares of a company can be sold and purchased in a share market.

(c)Common seal (Signature embodied in the company).

Since a company is a separate entity it will be necessary for it to sign papers and documents. Such signature is embodied in the common seal of the company. The seal is kept under the safe custody of some responsible official so as to avoid its misuse.

(d) Perpetual succession / continuous existence.

A company exists indefinitely till it liquidated or wound up. Its existence is not affected by the death or lunacy, insolvency, retirement or any calamity to its shareholders.

(e) Separate identity.

Members of the company are quite distinct and separate from the company

- They can not be sued for the debts or obligations of the company.
- No members can bind his company by his act or dealing with the third party.
- Only a company or the liquidator can take legal actions against him / company.

(f) Limited liability

Liability of the members of a limited company is limited to the face value of the share subscribed by each of them. Their private properties are not liable for the debts incurred by the company. This is because the company is a separate legal entity from the shareholders.

(g) Centralized management / separation of ownership and control.

The owners of the business have no right to take part in day to day management of the business of the company. Instead the responsibility is rested in the board of directors elected by members in the general body meeting of the company.

(h) The business conduct.

A company can conduct only such business as stated in its memorandum of association.

TYPES OF COMPANIES

There are two major types of companies:

1. Statutory companies
2. registered companies.
3. Chartered companies (extra)

1. Statutory companies

There are companies created by the Act of parliament, owned and controlled by the government.

2. Registered companies

These are companies that are formed and registered under the companies Act of 1962 and they are the most common type in Africa.

3. Chartered Companies

These are companies which are established under the royal charter.

TYPES OF REGISTERED COMPANIES

Registered companies may be classified basing on the following categories:

(a) According to the number of members.

- (i) Private limited companies
- (ii) Public limited companies

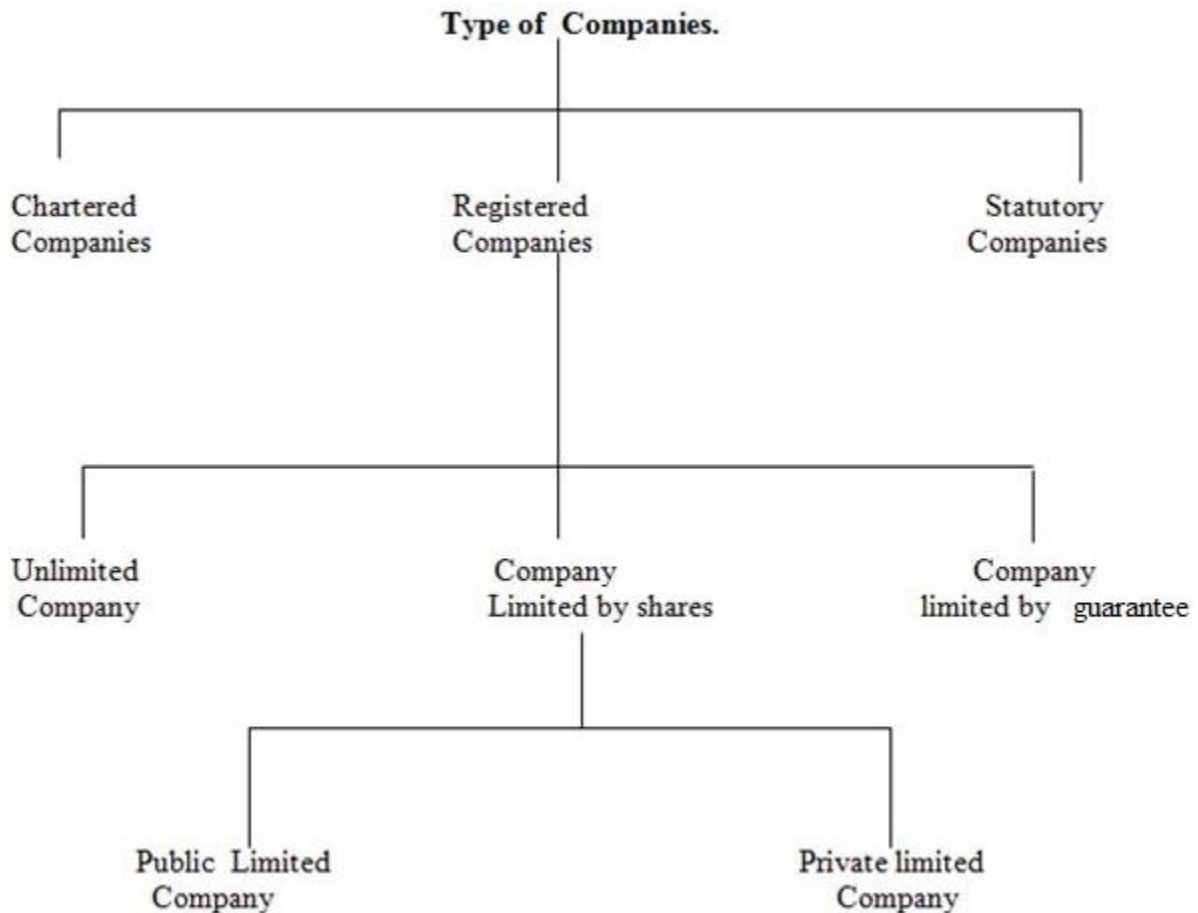
(b) According to the liability of members.

- (i) Limited companies
- (ii) Unlimited companies

(c) According to the number of shares.

- (i) Companies limited by shares
- (ii) Companies limited by guarantee.

A diagram showing different types of companies



1. PRIVATE LIMITED COMPANIES

This is a company with membership ranging from 2 – 50 according to the Companies Act of 1890

Characteristics of private companies

- (i) **Membership.** This ranges from 2 shareholders to 50.
- (ii) **Liability.** Member's liability is limited to their capital contribution.
- (iii) **Registration.** It is registered under the companies Act with the word "Limited" at the end of its name.
- (iv) **Transfer of shares.** Ownership of shares cannot be transferred from one person to another nor can the share be sold to the public.

(v) **Management.** It is controlled by a board of directors elected by shareholders. However, the ultimate control rests with the

shareholders as they have the power to replace the directors.

(vi) **Taxation.** It is subject to corporation tax on the profits made.

(vii) **Time to begin operating.** A private company can begin operating as soon as it receives a certificate of incorporation.

(viii) **The business is separate legal entity.** That is it owns property quite different from the shareholders.

(ix) **Shares.** The capital is divided into equal units called Shares

(x) **The shareholders have no direct contact with the customer or employees.** This is because of the large size of the company and the number of the employees in the business.

(xi) **There is assured continuity.** It is not affected by the death, Bankruptcy, of one of the members.

Advantages of private limited companies

(i) A limited company has independent legal status and hence the limited liability enjoyed by its shareholders.

(ii) With limited liability the company is able to attract capital from people who would not otherwise be prepared to invest.

(iii) In private company, the founders of the business can usually keep control of it by holding majority of shares.

(iv) Larger capital. Because of being larger in membership, companies are in a better position to raise much more money or capital than sole traders and partnership.

(v) Assured continuity of business. Since the death, bankruptcy or withdrawal of any one member does not affect the company, companies have assured continuity.

(vi) Limited liability. All members can enjoy limited liability unlike in partnership.

(vii) Specialization is possible. Companies are financially strong enough to employ specialist so specialization of activities becomes possible.

(viii) More source of funds. The sale of company share on the stock exchange stimulates investment even from small servers.

(ix) Sharing of loss. Large members and the fact that the capital is divided into different classes of shares means that the risk of loss is also shared and spread among members.

(xi) Shareholder are safeguarded . Publicity of company accounts safeguard shareholders against fraud.

Disadvantages of private limited company

(i) Any transfer of shares is restricted. It must be approved by board of directors.

(ii) A private company is not allowed to call upon the public for funds in the form of shares or debentures. So it is difficult to raise money for expansion.

(iii) Costly and difficult to establish. They required formal procedures like registration, payment of fees and duties not often required in small business.

(iv) Observation of state law and regulations. Companies are more subject to state laws and regulations. Eg. No company is allowed to undertake any form of business outside that agreed upon with registrar.

(v) Delay in decision making. Decisions may be delayed since business is conducted by a few elected members. The Board of Directors must meet before important decisions are reached.

(vi) Shareholders non – participation in management. A part from the largest shareholders who sometimes become managing directors the management of the company is separated from its governorship. Shareholders may be mainly concerned with dividends and overlook long term policies being handled by salaries officers.

(vii) Difficult to control the company control of the company. Is not easy as a partnership because of its large size and as a firm increases in size management become more complex and there are a few trained managers to run such a business successfully.

(viii) Poor workers relationship. Where there are no personnel officers to keep in touch with the employees , personal relations between the workers may be poor.

(viii) Higher taxes companies pay a higher tax on their incomes. This affects the companies earnings.

2. PUBLIC LIMITED COMPANY

This is a company with a minimum of seven members and no specific maximum membership. The maximum membership is normally determined by the number of authorized shares of the company. The public limited company may have its name ending with “PLC” i.e Public Limited Company (in Britain) or “Inc “ i.e incorporated (in US) . Its name must however, end with the word “Limited”.

Features / characteristics of public limited company

- (i) It has a minimum membership of seven persons and no specified maximum membership.
- (ii) It invites members of the public to subscribe to its shares.
- (iii) It shares are easily / freely transferable from one person to another.
- (iv) It must have a minimum of three directors. A director is a person who manages the affairs of the company.
- (v) It must have an authorized minimum share capital figure. Authorized share capital is the total value of all the shares that has been authorized by the government.
- (vi) A person wishing to leave the company must sell off his shares to another person.
- (vii) It can only start normal operations after receiving a certificate of commencement.(Certificate of trading).
- (viii) The name of the company must end with the words Public Limited Company.
- (ix) The liability of the company is limited.
- (x) The entity is separated from the members who form it.

Advantages of Public limited Companies

- (i) It has independent legal existence, limited liability for shareholders and continuity of the business.

(ii) It is allowed to appeal to the public for funds, whereas the promoters of a private company have to rely on friends and relations for capital.

(iii) There are no restrictions on the transfer of shares.

(iv) Public companies are normally larger than most other businesses. As a result, companies often benefit from economies of scale.

These result in the cost per unit of output falling as the level of output rises.

Disadvantages of Public limited company

(i) The formalities of forming a public limited company are quite complex.

(ii) Raising capital can be very expensive.

(iii) A public company may grow so large that it becomes difficult to manage.

(iv) Public companies are subject to so many government regulations. Regulations are imposed to protect either shareholders or the general public.

(v) Members have little control over the activities of the company.

(vi) The accounts of the company must be published. So, there can be little secrecy or privacy about its affairs.

(vii) Risk of takeover – over bids by other companies' shares can easily be bought on the stock exchange.

The distinction (differences) between public limited companies and private company

	Point of distinction	Public company	Private company
1.	Number of members	Minimum of three (3) no maximum limit.	Minimum of two (2) and maximum of fifty (50)
2.	Public invitation to capital	Free to invite the public to subscribe to its shares and debentures.	It cannot invite public to subscribe shares and debentures
3.	Commencement of business	It cannot commence business after incorporation unless it obtains a certificate of trading from the register of the company.	It can commence business immediate after receipt of certificate of incorporation.
4.	Prospectus	It must issue and file a prospectus or statement of in lieu of prospectus.	Need not to issue and file a prospectus or a statement in lieu of a prospectus.
5.	Allotment of shares	It cannot allot shares without raising minimum subscription.	It can allot shares without raising the minimum subscription.
6.	Statutory report	It must file a statutory report	It needs not hold a statutory meeting.

	Point of distinction	Public company	Private company
7.	Statutory meeting requirements	It must hold stators meeting.	It needs not hold a statutory meeting
8.	Statutory report	It must file a statutory report	It need not to file a statutory report.
9	Transfer of directors	Can only start operations with a minimum of three directors	Can start operations with one director.

ADVANTAGES OF JOINT STOCK COMPANIES (LIMITED COMPANIES)

- (i) **More capital/large capital.** More capital can be raised since it has many shareholders who subscribe it and a company can also offered better collateral as security for loans.
- (ii) **Limited liability.** Liability of members is limited. Their personal properties can not be sold to repay company debts. Their stake to the company is limited to their capital contribution.
- (iii) **Continuity is assured.** It has perpetual life or succession. The death or withdraw of a share holder cannot affect the existence and operation of a business. This is because a company has a separated legal entity.
- (iv) **Expert staff.** Employment of specialist staff is possible due to large capital. This means that the probability of their succeeding is high.
- (v) **Shares are transferable.** In case of Public companies, shares are freely transferable. A shareholder can easily convert his shares in cash by selling them to another person.
- (vi) **Legal entity.** It has a separated legal existence from its owners which ensures there is no conflict between the company and its members.
- (vii) **Governance by legality.** Share holder are safeguarded by the legal regulations underlying these companies. By law, joint stock companies cannot start operating without required legal guidelines.
- (viii) **Large profits.** Large profit are realized than in case of sole trade. This is because large capital is employed in the business.
- (ix) **Democracy.** Management is elected democratically. This is done during the annual general meeting, when all shareholders converge to listen to the company reports.
- (x) **Open membership.** People who have small capital which cannot enable them to set up their own business, can subscribe capital in joint stock companies. Every person is free to become a shareholder of a public limited company by subscribing towards its capital.
- (xi) **Acquiring loans.** Being large, companies have enough assets which can be presented as a collateral security to the financial institutions to get loan.

Disadvantages of joint stock companies(Limited companies)

- (i) **Management is difficult.** Being large, management is difficult. Some joint stock companies possess many branches and departments making supervision difficult.
- (ii) **Slow decision making.** Decision making is normally slow, because a lot of consultations must be made and consent from major shareholders must be received or all proposals have to be approved by the shareholders in a general meeting.
- (iii) **Confidentiality.** It is difficult to keep the comparing financial affairs confidential because shareholders and the public have a right to see the company's financial information.
- (iv) **Formation takes long.** Its formation is long and expensive procedure, requiring many legal documents. It involves memorandum, articles of association, prospectus and many others.
- (v) **Double taxation.** The shareholders suffer double taxation since the income of the company is taxed as well as the dividends paid to shareholders.
- (vi) **Profits are shared.** The sharing of profit reduces the amount of dividends received by each shareholders , unlike a sole trade, who enjoys all the profits alone.
- (vii) **Initiative is limited.** There is lack of personal initiation compare to sole trade. This is because the business is collectively owned and personal interest cannot influence its operations. So an innovative.
- (viii) **Shareholders don't have direct control over the business.** The directors of the company are responsible for the day to day running of the business and report to the shareholders at the annual meeting.
- (ix) **Conflict of interest.** The directors may have their own interests which may be different from those of the shareholders, and thus may end up conflicting with the interests of the company.
- (x) **Restricted operations.** Its operations are restricted to the activities specified in its objects clouse in the memorandum of association.

LIMITED LIABILITY CONCEPT

This is the fact that the liability of the company's members is restricted to certain amounts of investment in the company plus any other amounts that may be undertaken to contribute towards the payment of company debts. The word 'Limited' indicates that the liability of members is restricted to these stated amount and that members cannot be made to contribute any more money or property beyond the stated amounts to settle the company's debt.

A company may be limited by shares or by guarantee. These leads to the classification of company according to the number of shares.

(i) Company limited by shares

These is a company whose member's liability is limited to the value of shares held by them. Thus, the liability of the members is limited to the value of share held.

(ii) Company limited by guarantee

This is a company whose members liability is limited to the amounts that the members have undertaken to contribute to the business towards the payment of its debts. These contribution may cover costs, charges, and any expenses of winding up.

OWNERSHIP AND MANAGEMENT OF COMPANY

A company is owned by the persons who have subscribed to and purchased its shares. These people are known as **shareholders**, and their names are entered in the company's share register. Each shareholder has a claim on the properties of the company which is proportional to the number of shares held. The shareholders, however, have an unlimited right to transfer or sell their shares in the company Management .

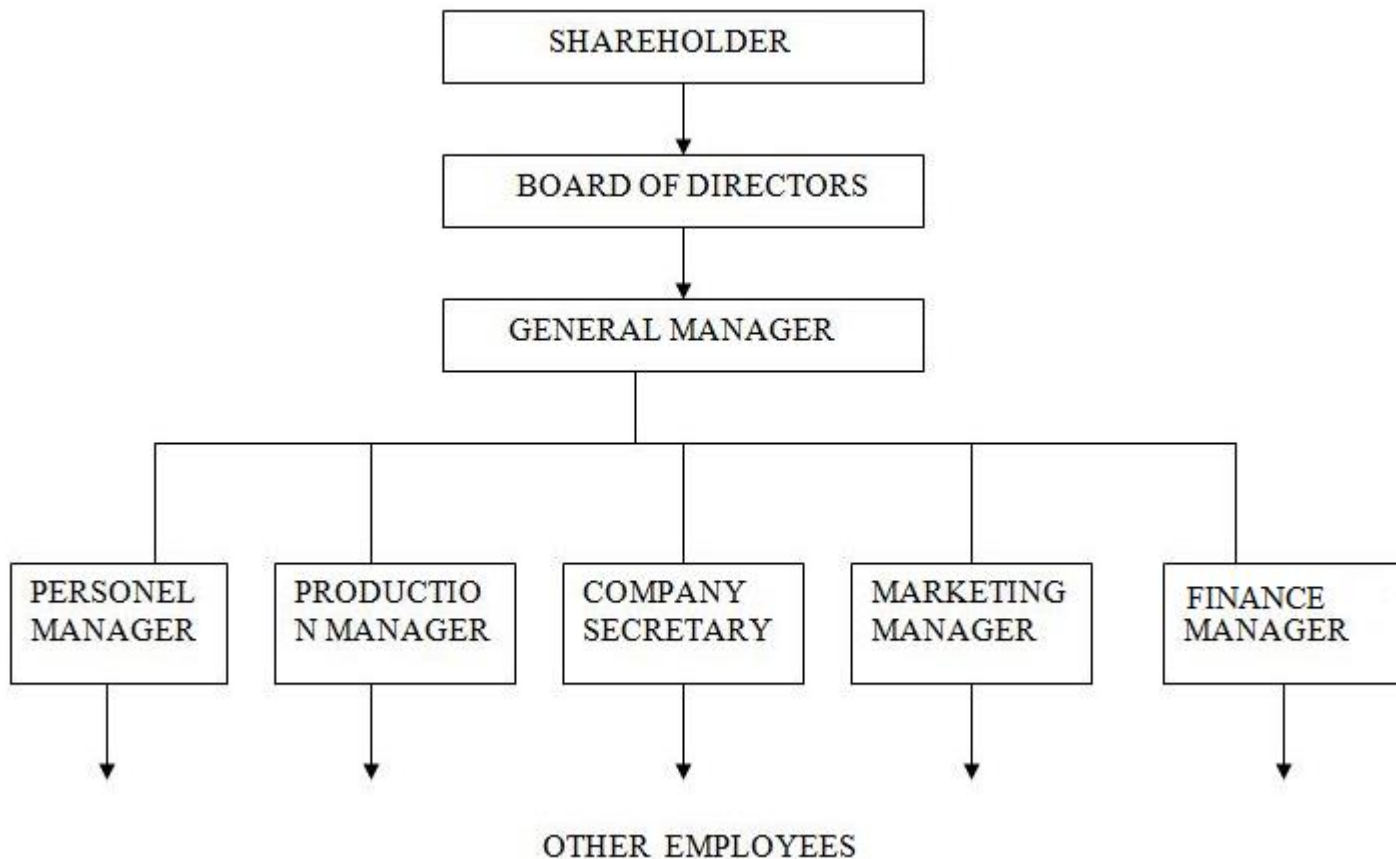
Management

Management of a company is in the hands of a **board of directors**. The initial directors stay in office until the first Annual General Meeting (AGM) is held, at which new directors are elected by the members. The size of the board of directors is usually determined by the size of the company. A small private company could have one director, who would be the managing director of the firm. A public company must have a minimum of three directors, one of whom is the managing director. A large company, however has a team of directors who make up the board of directors. The board of directors is incharge of formulating the company's policies and overseeing their implementation. This board is normally supported by a team of professional staff who are responsible for the day to day management of the various departments of the company. The team of the professional staff is headed by the **Chief Executive officer (CEO)**. It is this team that is responsible for implementing the company's policies and overseeing the day to day management of the famous departments.

In the case of public limited companies, the directors are required by law to present a copy of the audited financial statement at the AGM, which is then filed with the Registrar of companies. However, private companies are not obliged to do so.

So, there are two power bases in a company which is responsible for management of the company i.e The members (shareholders) general meeting and The board of Directors (BOD).

The management of the company follows the company structure depicted below:



1. SHAREHOLDERS

Shareholders are the owners of the company, they buy ordinary shares and given share certificates which proves their ownership in the company. They do not own assets of the company because, the assets of the company are legally owned by the company however they have direct rights on the assets only when the company is liquidated after paying creditors, debenture holders and preference shareholders.

The power and voting rights of the shareholders are exercised at the annual general meeting. The voting right are determined by the number of shares each one holds on the basis of one – share – one – vote.

At the annual general meeting they elect members of board of directors, and voting for changes in the Memorandum and articles of association thus effecting the structural changes in the company.

The general meeting is the highest power base in the company in which all the members or shareholders are entitled to attend.

Shareholders and their rights

(i) Proprietary (ii) Managerial (iii) Statutory (iv) Documentary and (v) Remedial.

(i) Proprietary rights

- The right to dividend on their shares at the rate desire at their general annual meeting.
- The right to transfer their shares as per article of association.
- Other rights to receive bonus shares, participation in surplus assets income on liquidation of the company, getting share certificates, etc.

(ii) Managerial rights

- Voting rights on all matters planed before the general meeting. A right to role on the principle of one vote one share.
- Approval of alteration in memorandum of association and Articles of association and other changes in the company set up.
- Election of directors, appointment of Auditors, appointment of managing director and other personnel.
- Approval of accounts and declaration dividends.

(iii) Statutory rights

- To receive share certificates.
- To receive notice, agenda, circular reports, accounts and audit reports, etc
- To transfer shares
- To impact statutory banks of the company.
- To demand post on any resolution part at the writing.
- To requisition extra – ordinary general meetings for dissolve urgent matters.

(iv) Documentary rights

All right granted to them by company's Memorandum and Articles with regards to voting, election of directors, accounts, etc.

(v) Remedial

Shareholders have the right to get the affairs of the company investigated in case of frauds, dereliction of duties e.t.c so as to prevent oppressive management.

2. BOARD OF DIRECTORS

Board of directors is the main governing body of a company. It consists of directors who are also referred to as TRUSTEES, they have to look after the company's property and use the same to promote the interest of the company.

Why company directors

A company is a separate legal entity from its members as a separate legal entity a company cannot manage itself it needs people to manage it, that are directors.

The term **director** is applied to anyone instructed with management of a company who attends board meetings and takes part in their decision – making activities.

(a) Appointment

The first directors of a company are appointed by the promoters and may also be named in the Article of association. Subsequent directors are elected by the shareholders at annual general meetings of the company.

(b) Qualifications

- Only person holding the qualification shares can be elected as director.
- Number of value of shares are specified in the Articles of Association.
- A person of bank cannot be appointed as a director.
- A person who is adjudged insolvent is not qualified to be a director.
- A person who is convicted of offence and sentenced to imprisonment for more than six months cannot be elected a director.
- A person who does not paid the calls on his shares due six months or more cannot be elected a director.
- A person guilty of offence in promotion and Management of the company cannot be a director.

(c) Remuneration

Remuneration payable is determined either by the Articles in by resolution passed at the general meeting of the company. A director may be paid specified amount of fees for attending the meetings of the Board of Directors or of any committees of the Board.

(d) Powers, duties and liabilities of directors

- They are charged with the responsibility of recruiting the general managers of the company.
- The board of directors is also responsible for declaring dividends and determining what part of the profits will be retained in the business for expansion .

- They do also take major decisions affecting the day to day operations of the company and expansion of business.
- The Board of directors is liable for their actions and fully accountable to the shareholders in the general meetings.

3. **MANAGING DIRECTOR**

The management of the company is composed also the general manager (GM) or the Executive Officer (CEO) or managing director (MD). The managing director is the director who has been entrusted with “substantial powers” of management or by a resolution passed by the company at its general meeting or by the Board of Directors. He is the top executive functioning in a two fold capacity as an elected director and also as a manager who is vested with additional powers in respect to important matters of the management of the company. The board may pick one among them to become the Chief Executive Officer (CEO) in this case is called a Managing Director (MD). He is given remuneration as a whole time director.

Departmental Managers

The general manager may be assisted by Deputy General Manager who in turn is assisted by personnel manager, production manager, finance manager, marketing manager and the company secretary.

4. **Other employees**

Under the departmental managers there may be middle management cadres as well as clerks and other workers in their efforts to achieve the objectives of the company.

Company meetings

A meeting is defined as the assembly of two or more persons for exchange of their views and suggestions on matters of business significance to the company. It is a corporate gathering of members or owners of the company or Board to discuss and decide the specific issues.

Essentials of valid meeting

The condition essential for a regular and legally to able meeting are as follows;-

- **Notice.**Members would be given proper notice of meeting.
- **Agenda.**Item to be considered must be listed and available to members.
- **Quorum.**Minimum number of members to constitute a meeting should attend.
- **Chairman.**A chairman to preside the meeting must be present.
- **Motions.**Proposal placed for preview of the meeting.

- **Resolution.** Motions passed at the meeting with requisite of the majority.
- **Method of voting.** Should be prescribed to assist the service of the meeting.
- **Minutes.** Recording of the meeting should be adequate.

The general Meetings

The general meeting is the highest power base in the company in which all the members or shareholders are entitled to attend. The most important decisions are made in the General Meeting. Under the companies Act, there are three types of General meetings namely: The Annual General Meeting (AGM), the Extra – ordinary Meeting (EGM) and Statutory meeting.

1. **Annual general Meeting.** It is a shareholders meeting held every year to review the progress and prospects of the company. It enables the directors to place before the members an account of their activities and achievements for the year and seek their approval for their plans and programmes for the coming year.
2. **Extra - ordinary Meeting (EGM).** This is the meeting other than annual general meetings which can be called by the directors or by requisition of members or by the registrar of the companies. The purpose of such meetings is to permit the discussion and transactions of business which cannot properly be postponed until the next general annual meeting. All business transacted at an Extra – ordinary meeting are treated as special business and must be specified in the notice when calling the meeting.
3. **Statutory meeting.** This is the first meeting of shareholders at which they are given details of various regulations and rules.

Resolutions of the general meeting

Decisions in general meetings are made by voting and such decisions are called resolutions. The resolutions are the decisions taken on the proposals placed at the meeting:

There are two types of resolution grouped in the basis of the extent of majority which they have been passed at the general meeting.

1. Ordinary resolution

It is a resolution that has been passed by members entitled to do so by voting in person or by proxy. A proxy is a person representing a shareholder after obtaining the letter from the lawyer permitting him or her to attend the meeting, when the shareholder is unable to attend the general meeting. These resolutions require 51% and above votes of the member present. Matters which can be decided or voted upon ordinary resolutions include: election of directors, appointment of Auditor, declaration of dividend, adoption of accounts and directors report, and increase in the authorized capital.

2. Special resolution

Special resolution is one which is passed with at least $\frac{3}{4}$ th (75%) majority. Items requiring special resolution under the company law include; Alteration of name clause, alteration of objectives, alteration reduction of capital, commencement of new business, appointment of share selling agents and voluntary winding up of a company.

FORMATION OF A JOINT STOCK COMPANY

Formation of a company is a complex process involving several legal formalities and procedural decision.

Four main stages are involved in the formation of a company:-

1. Promotion
2. Incorporation
3. Floatation or capital subscription
4. Commencement of business.

A private company has to complete only the first two stages while a public company must undergo all four stages in order to start the business.

1. PROMOTION

The term refers to the sum of all activities by which a business is brought into existence.

In order to form a company, there must be people who will come with an idea of forming a company and setting it in operations. These are founder members of the company and are known as PROMOTERS.

To form a private limited company requires minimum of two (2) promoters and a public limited company requires minimum of seven (7) promoters.

Role of Promoters

The promoters perform the following functions.

- (i) Conceive a business opportunity or idea of starting a new business.
- (ii) Conduct a preliminary analysis of the idea to determine its profitability and feasibility.
- (iii) Carried out a detailed investigation in order to determine the nature, scope and requirements of the proposition.
- (iv) Consult various people and persuade them to join in the proposed business as directors.

- (v) Make provisional contracts for the purchase of assets
- (vi) Make negotiation for purchase of existing business where necessary.
- (vii) Make an issue and allotment of securities.
- (viii) Appoint brokers, underwriters, solicitors and bankers for the company.
- (ix) Get the necessary documents prepared and filed with the registrar.

Stages in promotion of a company

Promotion of a company involves the following stages:

- (a) Discovery of business opportunity
- (b) Conduct a detailed investigation

(c) Verification

- (d) Assembling the proposition

(a) Discovery of business opportunity

Several ideas are collected in respect to prospects of a business.

(b) Conduct of detailed investigation

A thorough investigation is required or made with reference to the:

Extent of demand, degree of competition, estimated cost involved, source of supply of materials, amount of finance required, location of the business, etc.

The services of experts such as accountants, engineers, marketers, e.t.c may be needed to prepare a project report.

(c) Verification

The project report submitted by investigators must be verified by a separate team of impartial experts. (Experts who are independent having no interest in the company to be established).

The purpose of this verification is to eliminate errors in the report which may have been caused by biases which are characteristic of all personal research work.

(d) Assembling the resources

Once the investigation and verification are confirmed on the feasibility and profitability of the project proposal, the promoter assembles the resources necessary for the establishment of a company.

The promoters should thereafter ensure the following:-

- (i) Secure co – operation of the people who would be associated as directors or founders.
- (ii) Make contracts with underwres , bankers , brokers, e.t.c for raising the necessary finance.
- (iii) Make contracts for purchase of land and buildings, plant and machinery, furniture and fixtures, e.t.c
- (iv) Arrange for supply of materials and recruit of staff, e.t.c
- (v) Make arrangement for installation of machinery.
- (vi) Finalize the preparation of necessary documents required for incorporation of a company.

2. INCORPORATION OF A COMPANY

Incorporation of a company implies its registration as a corporate body under the companies Act, 2002.

It is a legal process involving the following steps:-

- (i) Search for the name of company
- (ii) Filing legal documents
- (iii) Registration of the company
- (iv) Issue of certificate of incorporation

(i) Search for and approval of name of the company

Before registration, its necessary to search and obtain approval of the name of the company. A special application form is usually provided at a fee to this effect.

The exercise aims at finding out whether another company has already been registered with the same name or not.

- (ii) Filing the legal documents

Once the name is approved a file containing the following documents should be submitted to the registrar of companies.

1. Memorandum of Association
2. Articles of Association
3. Registered office
4. Statement of nominal capital
5. List of directors
6. Declaration of compliance with the requirements of the companies Act.
7. Certificate of incorporation
8. Prospectus
9. Certificate of trading

Companies are required by the registrar of companies to prepare and present the first five (5) documents listed above.

There documents are discussed in details below;-

(a) MEMORANDUM OF ASSOCIATION

This is the principal document filed with the registrar of companies upon incorporation of a company under the companies Act. It is a charter or constitution of the company. It defines the powers and limitations of the company. Also it lay out the relationship of the company with the outsiders (general public).

The Memorandum of Association has the following contents or clauses each defining a particular aspect of the company.

(1) Name clause

The clause states the name of the company.

A company may choose any name subject to the following conditions:-

- It must not be “undesirable” e.g too similar to that of an existing well known company.
- It must be displayed outside of every company office and on company stationeries , e.t.c. The name should end with the with the world Limited (Ltd) to save as the reminder to the people dealing with the company that the liability of members is limited.
- It also not use the name of the country e.g ((TZ) Ltd.

(ii) Domicile / Address / Situation / Location clause

This shows details of the company’s registered office. The registered office is the place where all the statutory books and other documents of the company will be kept. All notices, circular and other correspondences are sent by the registrar to the registered office. Also registered office shows the location e.g Mwanza, Arusha, Dodoma etc , telephone and fax numbers, Website address and e – mail contact a details. This enable the public to know where to find it in case of contact.

(iii) The objective clause

This outlines the aims and objectives for which the company is being formed, and the company cannot act beyond the registered objectives. This helps the public to know exactly what they are subscribing their money for. The promoters therefore word this clause carefully to include the main and secondary activities to be undertaken by the company. Any contract entered into by the company which is not within this clause is regarded as void by law.

(iv) Capital clause

This states the amount of authorized / registered capital the company wishes to have. It includes the following:

Total amount of share capital, the units into which share capital is divided , types of shares available to the public e.g cumulative, preference, ordinary, and the value of each share.

(v) Liability clause

This states that the liability of members is limited to their capital contribution.

In case of the company limited by guarantee, the liability of members is limited to the amount has undertaken to pay at the time of liquidation of the company.

The debts of the company are paid off using the assets of the business.

(vi) Declaration clause / Association clause

This is a declaration made by the promoters showing that they desire to form themselves into a limited company and they have agreed to take the stated number of initial shares in the capital of the company.

The memorandum of association should be submitted duly signed by at least two (2) persons in case of private company and at least seven (7) persons in case of a public company who agreed to take at least one share each showing also their names and addresses. The promoters also indicate that the requirements of the Companies Act have been followed.

The significance of Memorandum of Association.

- It is the basis of incorporation such that no company can be registered without it.
- It determines the limits of company's activities. Any activities done outside the scope of the Memorandum will be ultra vires and void (not binding).
- It informs the investors of the purposes for which their money will be utilized.

- It makes known to the shareholders the extent of their liability.
- It defines the objectives of the company.
- It enable the outsiders to know whether the company is authorized to enter into a particular transaction.
- It indicates the names and addresses of the people who have promoted the company and the first shareholders.

Alteration pf the Memorandum of Association

The memorandum of association must be prepared by all companies . Alterations are possible. A meeting of all shareholders is called and a resolution seeking alterations is passed by the majority. The registrar is then informed of the changes.

The memorandum of association can be altered in accordance with the procedures laid down in the company Act. 2002 on alteration of name clause.

If the name is similar to other company so one should pass an ordinary resolution so one should pass an ordinary resolution to the registrar so as to approve the changes .

He should tell the registrar why name of the company is being changed and give the new name.

2. Alter situation clause

When you want to change the registered office to another region, one has to send an ordinary resolution to registrar who will take it to high court of where you currently are situated and the new place you want to go. Either one can go himself to both courts.

- To move from one district to another in the same region, one has to take ordinary resolution to registrar of company but not to court.
- To move from one street to another, submit ordinary resolution to registrar.

3. Altering object clause

This clause shows what the company focus on. Ordinary resolution has to be submitted to registrar on altering the clause. The registrar will not easily accept this alteration unless all the creditors or guarantors or holders of the company agree to change this clause. If one of the holder is not informed of alteration , then he can sue the company in court and get compensated.

Most of times, object clause is altered for the reasons to attain large number of customers if company wants to carry some profitable activity , to enlarge areas of operation, to amalgamate

with any other company, to sell whole or part of the company's to sell whole or part of the company's property, to attain its main purposes by new or improved means.

4. **Altering liability clause**

It can be changed by calling a meeting that takes place between all members, and if they agree to change, the registrar will have no problem. A 21 days in advance notice is sent to them so as to inform that the meeting has to take place. If majority come and others do not then the decision will be taken with consent of majority and the rests decisions will not be considered as they were not present during meeting.

5. **Altering capital clause**

Every holder who has contributed capital has to be notified of changes in this clause. Company has to pay off all debts., cancel all paid up capital by paying shareholders. One has to submit ordinary resolution to registrar and court will approve. There are reasons such as wanting to raise more capital, consolidate and divide its capital into shares of higher denominations, cancel the un – issued capital, convert fully paid up shares into stock and vice versa, reduce amount of share capital, sub – divide shares into smaller denominations.

(b) **ARTICLES OF ASSOCIATION**

This is document clearly states the rules and regulations that guide the internal operation of the company.

The Articles of Association contain the following information:

- (i) Organization structure
- (ii) It states the rights and powers of each type of shareholders and the founders / promoters of the company and powers of directors.
- (iii) How to elect management committee
- (iv) How and when to hold meetings
- (v) Ways of raising finance for expansion.
- (vi) How records of the company are to be kept .
- (vii) It shows the salary to be paid to the management committee.
- (viii) Borrowing, dividend and reserves policies.
- (ix) It states whether shares are transferable from one company or person to another and how, e.g by sales exchange , e.t.c

- (x) Book –keeping and auditing requirements.
- (xi) Methods of dealing with any alteration of the capital.
- (xii) Qualifications, duties, and powers of directors.

These articles of association thus serve as a guideline to the internal management of the company. The articles of association should be duly signed by the subscribers of the Memorandum of association.

The memorandum and Articles of association serves as constitution of the company.

The alteration of articles of association may be made fairly simply by calling a meeting of all shareholders and the alteration resolution being passed by the majority. The resolution is then forwarded to the registrar of the companies for effecting alteration.

Differences between the Memorandum and Articles of association

Differences between the Memorandum and Articles of association

	Memorandum of Association		Articles of Association
1.	It has <u>be</u> prepared by all companies before they can be registered.	1.	It is not mandatory before registration.
2.	It is the main document required for registration.	2.	It is subsidiary document
3.	It is specific to a particular company.	3.	It is similar for all companies, since it is adopted from the Companies Act.
4.	It can only amended by law	4.	It can be amended by a special resolution of the members.
5.	It deals with the relationship of the company with outside	5.	It deals with the relationship of the company with its members.
6.	It contains a specific number of clauses for all companies.	6.	It may contain varied information depending on each company.

(c) List of directors

This documentation contains details of names, address, occupations, shares subscriber, and a statement of agreement to serve as directors.

(d) Registered office notice

This is the notice of where registered office of the company is situated.

(e) Statutory declaration

This form states that all the necessary requirements have been fully complied with and directors agree to act as such. This may be signed by the secretary or one of the directors or promoters of the company.

(iii) Registration of the company

This is affected after the Registrar of companies is satisfied with correctness of the documents tendered, who then ask the promoters to pay registration fees. Registration is affected by entering the name of the company in the register and giving a registration number.

(iv) Issue of certificate of Incorporation

The registrar will give a certificate of incorporation after registering a company.

A certificate of incorporation is a conclusive proof of the fact that the company has been duly incorporated and it gives a company legal existence. The company comes into existence from the date of issue of the certificate of incorporation.

A private limited company can commence business operations immediately after receiving a certificate of incorporation but a public limited company should first obtain a certificate of trading before commencing business activities.

A certificate of incorporation shows:

1. Name of the company
2. Date when it is registered
3. Address and location of the company
4. Signature of the registrar.

Before commencing the business, a public company must proceed to issue a PROSPECTUS inviting members of the public to buy its shares.

A prospectus

This is a notice, circular, advertisement or other invitation offering the public the opportunity to purchase the shares in the formed company. It is prepared by the directors of the company. It is prepared by the directors of the company and must be signed by all. It gives detailed information about the promoters and the directors of the company. The purpose of this document is to provide the public with sufficient information about the company to encourage them to buy shares of the company.

The prospectus will contain the following details:-

1. Name and address of the company.
2. Nature of the business (company)
3. Type of shares available

After reading the prospectus, members of the public who are interested apply for shares, and send the application letter together with the application fee.

After this, the directors allot shares to the applicants, and then successful applicants are called upon to pay for the allotted shares. On payment, they become shareholders and are issued with share certificates. When the directors receive the necessary capital from the sale of shares, they inform the Registrar of the companies and a Certificate of Trading is issued.

A public limited company can only be allowed to start business when the Registrar is satisfied that:-

- (i) The company has raised the minimum amount of capital as required by the Memorandum of association.
- (ii) Every director has paid to the company the minimum amount of money for the shares to be taken by him or her, and
- (iii) There is a declaration by one of the directors that the company has complied

With all the regulations stipulated by the law that governs companies, Once the registrar is satisfied with this issued to enable the public limited company to start its operation.

Certificate of Trading/Trading license

This is a document which empowers the public write company to start operating. It is issued by the registrar of the Company after the Company has raised the minimum share capital.

NOTE;

If the Company has been in existence for sometime but wants to raise more capital contain the company auditors reports cornering the profits or losses and dividends for the post year. The latest balance sheet showing the assets and liabilities is also included.

3. FLOATATION OF CAPITAL/CAPITAL SUBSCRIPTION

This include the following activities

- (i) Invitation and offer shares for subscription
- (ii) Appointment of a company banker and underwriter
- (iii) Issue of share to the public

(i) Invitation and offer of shares for subscriptions.

The promoters should state the minimum amount which they need to commence the business after receiving the certificate of incorporations.

The company should invite the public through press advertisement to subscribe for the share capital of the Company. The promoters must prepare the prospectus and make it available for issue to the prospective shareholders.

A prospectus is a documents prepared by promoters containing all the necessary information about the Company together with an outline of the memorandum of association aiming at inviting the people to apply for the shares and to become share holders in the formed company.

A prospectus duly prepared and printed is filed with the registrar of companies and ready for issue to the public

A private Company

It can commence it immediately after receiving certificate of incorporation since it raises its capital privately and not from the public. A private Company may have to raise its capita even before incorporation. It however requires a certificate of incorporation to in uGu rate its business.

A public Company

It must first raise the necessary capital and obtain a certificate of commencement (trading certificate) before it starts operating. The process and procedure requirements for raising capital is referred as capital floatation/subscription.

Permission for capittalissue

Permission or approval of the controller of capital issue must be sought.

He following condition should be satisfied for such approval

- (1) Debt – equity ratio (Ratio between capital and borrowings)

Should exceed 2:1

(ii) Share should be issued at par

(iv) The rate of interest should not exceed the prescribed limit as in the Acts

(b) Appointment of banks and underwriter

The promoters appoint the bank which will distribute the prospectus, application forms and receive the applications for the shares and money on behalf of the Company Underwriting

If the Company feels that it will not be able to sell all the shares it is offering, it may get a commercial bank, or insurance company, or share broker to underwrite the issue. This means that the underwriter will have to buy any shares that may not be taken up by the public for a small commission.

Advantages of underwriting

(i) It relieves the company procedures (or direction) of the risk and uncertainty of selling the shares

(ii) It enables the promoters to have large amount of capital at agreed term and thus the company is saved from the worries about sufficient fund

(iii) The Company gets the benefits of expert advice of underwriters because they fully know well as to where, when and how the shares are to be sold.

(iv) Underwriters are usually men or institution of considerable financial status and highly established reputation. Association of such person or institution with the issue enhances the chance of its successful sale

(iii) Issue of shares to the public

An application is made to recognized stock exchange for the permission for dealings with shares and debentures of a company. The following conditions should be satisfied for such approval

- Debt equity ratio or ratio between capital and borrowing should not exceed 2:1

- Share should be issued at par (Nominal value) face value)

- The rate of interest should not exceed the prescribed form along with application money are received by the company bankers. The Company can issue shares to be paid fully at application or to be paid on installment.

SELLING SHARES ON INSTALLMENT

A company may decide to sell some of the shares in installment called “CALLS” This is done to encourage a large of people to apply for the shares

Procedures for issue of shares in Installment (rarely practiced in Tanzania)

An advertisement may contain an application form or specify from where the application forms are available. Applicants fill in the form stating the numbers of shares they wish to buy or subscribe for and asked to pay application money, which gives the company an assurance that the applicant is serious.

(ii) Allotment of shares

After the application period and the list closed, all applications are forwarded by the bankers to the Company.

On the receipt of applications, the directors go through them and decide which ones are to be allotted shares either on prorata basis or the other way though basis or the other way though by them to be just and fair. Oversubscription and under subscription may happen.

Over subscription occurs if more shares have been applied for than the shares issued and the vice versa is true for under subscription. Some of the applications may be rejected, the letters of regret are sent to them with refund money they have paid. For those accepted are sent allotment letters and asked to pay the allotment money in other words allotment is the acceptance by the company of the subscribers application.

Should a share holder fail to pay the rest of installments (calls) within a specified period, his membership is cancelled and the already paid installment is not refunded.

(iii) Issue of share certificate.

On receipt of allotment monies, the successful applicants are issued with share certificate which becomes an evidence of membership to the company and all the names are written in the register of shareholders. This warrants them to receive dividends at the end of trading period.

(v) Making Calls

The shareholders will be asked to pay the balance of the par value in two or three installments referred to as call money

(vi) Forfeiture of shares

Shareholders who after having been allotted shares are forfeited and lose the money they may already have paid. Forfeited shares are later re-issued by the company

4. ISSUE THE CERTIFICATE OF INCORPORATION AND COMMENCEMENT OF BUSINESS UPON

The certificate of Trading is a document that in powers a company to begin trading and automatically makes provisional contracts already entered into effective and binding on the company

To obtain the certificate of commencement a public limited company must file the following documents with the Register of companies.

- (i) A return of allotment containing the names addresses of shareholders and the number of shares
- (ii) A declaration that the director has applied for and obtained permission for its shares to be dealt on the stock exchange.
- (iii) A statutory declaration signed by a directors stating that the necessary formalities have been duly complied with respect to the issue of shares

SHARE CAPITAL OF THE COMPANY

THE CAPITAL STRUCTURE OF COMPANY

The capital structure of a Company this refers to the different categories under which the authorized capital of a company divided up. This is because the company does not normally invite subscriptions for all of its nominal or authorized capital at one time. Payments is usually by periodic amounts known as installments or calls.

The capital of the company is called share capital because it consists of and raised by selling shares. The following are types of shares capital or company capital.

1. Authorized Capital/Nominal Capital Registered Capital

This is the maximum amount the Company expects to raise and operate with by selling shares and it is stated in the capital clause of its memorandum of Association. Assume that the Company share capital is made up of 100,000 ordinary share of shs. 10/=

The nominal or authorized capital of the company is $100,000 \times \text{shs}10 = \text{sh}1,000,000/=$ Once registrar of companies expects such a firm to operate with this amount.

2. Issued and Unissued Capital

This is the part of the authorized capital which the company may actually has offered to the public for subscription in the form of shares. The company issues shares according to its requirements.

For example, out of the company authorized capital the directors may decide to put some of it to the public so as to start subscribing for suppose they issue only 50,000 x sh. 10 = 500,000. The remainder is 50,000 shares x sh. 10 = 500,000. Therefore in issued

capital is sh. 500,000

3. Called up share capital

Once the shares have been put to the public so as to start applying for , then the share hold are called upon to subscribe or to pay. They may be called upon to pay for all the shares issued or only a fraction of what was issued.

What was issued.

Assume that each shareholder is asked to pay shs 5 first for every share he taken up. Since 50,000 shares were issued the amount of called up capital is 50,000 x sh. 5 250,000. The remainder is known as uncalled up capital i.e what share holders are asked to reserve for sometime

4. Paid - up share capital

This is the actual amount received from the subscribers by the company out of the subscribers by the company out of the called up capital. The amount unpaid is known as calls in arrears.

5. Reserve capital

A public company may create a special category of capital known as Reserve capital in respect of called up capital of the company.

Reserve capital is the amount which is not callable by the company except in the case of the Company being wind up. Reserve capital is created by means of a special resolutions passed by the company in the general meeting.

6. Loan Capital

This is money provided by the issue of debentures or borrowing from the bank. Such capital is a ability to the Company

7. Minimum share capital

This is the amount stated by the promoters when making application for the registration

Company as the minimum amount required commencing business effectively.

SHARES OF A COMPANY

A share or stock is a unit in which the capital of a company is divided.

OR

A share is a unit or portion of capital to raise funds

The money raised through the sale of shares is known as share capital. Profits distributed to shareholders are known as dividends. Holders of shares are called shareholders or members of the company.

Types of shares

(i) Ordinary /Equity shares

(ii) Preference shares

(iii) Deferred shares

1. Ordinary /Equity shares

These are shares held by real owners of Company. These shares are held by persons who are fully responsible for the debts of the company.

In case the company is dissolved ordinary shares have the last claim on the properties of the company. These type of shares give their holders the power to formulate policies for the company.

Characteristics of ordinary shares

- i. They do not carry a fixed rate of return. The amount of profit allocated to them depends upon what remains after all the creditors and shareholders with prior claim have been paid.
- ii. The owner of shares receives a dividend on them only if there is sufficient profit. If profits are too low or if there is a loss the company may not pay a dividend. When profits permit, each shareholder will receive an equal amount for each ordinary share held.
- iii. When the company is bankrupt, shareholders will be paid if at all in only after all other debts have been paid.
- iv. There is no special security for such investments other than the soundness of the company.
- v. In exchange for the risk, the ordinary shareholder has the ultimate control of the company, in that they have one vote for each share when it comes to electing the board of directors. Who are responsible for the general policy of the company.
- vi. In good years shareholders may receive higher rates of dividends than other shareholders but in bad years there may be no return at all.

- vii. When the Company is winding up, the shareholders are paid money after the other shareholders and creditors.
- viii. Ordinary shares are the most important and popular type of shares, It is therefore called a entire capital of the company
- ix. The rate of dividend on ordinary shares depends upon the profit of the Company.
- x. The ordinary shareholder to not create any change on the assets of a company
- xi. No burden on company resources since the dividend is to be paid out of the profit of the company, therefore they impose no burden on the resources of the company.

N.B The great risk of business falls upon the ordinary shareholders because.

They have no fixed rate of dividend.

The amount of profits allocated to them depends upon what remains after all the creditors and shareholders with a prior claim have been paid.

- (ii) There is no special security for this investments other than soundness of the company
- (iii) IN good years they may receive higher rates of dividends than the other shareholders but in bad years there may be no return at all.
- (iv) In good years they may receive higher rates of dividends than the other shareholder but in a bad years there may be no return at all.

2. Preference shares

Preference shares, as the name suggests have certain preferential rights or privileges in respect of the payment of dividend or repayment of capital as compared to other types of shares.

Characteristics of preference shares

- (i) They earn a fixed dividend, say 5% or 10% preference shares
- (ii) They have first priority in sharing dividends
- (iii) In case of insolvency the holder of preference shares receive their proceeds before ordinary shareholders
- (iv) The dividends paid are higher than in case of ordinary shares.
- (v) Those too are held by the owners of the Company and form part of the Company capital with a fixed rate of dividend.

(vi) Most preference shareholders have no say in the control of the Company, as they have a privileged position as respect to dividends.

Types of preference shares

(a) Cumulative preference shares, These are type of shares which are entitled to a fixed rate of dividend till they are paid, Holders of these are assured of their dividends every year. If a Company does not pay dividend in one trading year, then payments are carried forward to the next year, In other words, dividends keep on accumulating till paid.

Holders of these are assured of their dividends every year. If a company does not pay dividend in one trading year, then payments are carried forward to the next year. In other words, dividends keep on

accumulating till paid. That is to say if there are no dividend paid this year, next year or the next year after that the amount has to be paid.

(b) Non cumulative preference shares, This will be entitled to a fixed rate of dividend, but only for the year for which a dividend is declared. Otherwise, it does not accumulated and arrears are not carried forwarded.

(c) Redeemable preference shares, These are shares offered by the Company for sale to the public but they can be bought back or repossessed by the company when necessary or after a specified period of time. The shareholders are paid a high rate of interest when such shares are taken away from them. These are issued when the company wants more money temporarily.

(d) Irredeemable preference shares

These are shares offered to the public for sale and cannot be reposed or bought back by the company under any circumstances. If a shareholder wants to leave the company and wants his money back, he can sell his shares to the public

(e) Participating preference shares

These carry a fixed rate of dividend and the holders are entitled to any extra profit which rains after all shareholders have received their dividends

(f) Guaranteed Preference shares

These shares are guaranteed for a fixed rate of dividend by a third party. If the profits of any one year are no sufficient to pay such dividend, the guarantor (s) have to pay the same off their private resources

(g) Convertible Preference shares

These are those shares which the holders can convert into equity (ordinary) share at specified period of time. The right of conversions to be authorized by the Articles of Association of the Company

3. Deferred shares

Here the business may want to convert to public limited company and wish to retain powers of control and right to high profit. Thus they create a class of deferred shares giving them special voting powers and the rights to dividends

TERMS USED IN THE SHARE MARKET

1. Share at par

This is when the money offered for purchase is equal to the face value of the share. For example if the face value/nominal value of share is Tshs. 400, the amount offered for sale is Tshs 400. A share is above par, if it sells more than its nominal value and below par if it sells less than nominal value.

2. Share at premium

This is when the price paid for that share exceeds the value of that share e.g. the value of share is Tshs 500 and it is offered for Tshs. 600

Reasons why company decide to sell shares at premium

(h) Company finds it fair to sell shares to the existing share holders who may have paid more than the par value of their shares.

(i) Company might want to intercept parts of the company profits that would have gone to the speculators.

(j) The books of accounts require the premium to be shown separately in share premium account and not share capital account

(k) Premium is not trading profit therefore it may not be distributed as dividends it can be used to write off preliminary expenses, write off commission or debentures on issue of shares and raising new cash from shareholders

FEATURES OF RIGHT ISSUE

(i) Right issue of shares is made by issuing provisional letter of allotment which shows the share, the member is entitled to take up and the price payable for the shares.

(ii) Members may take the issue wholly or may renounce the issue by selling his right to another party

(iii) It is apportioned to their present holding of shares of similar or specified shares.

(iv) An issue at less than market value of the existing share will lower the value of the existing ordinary shareholders equity.

(v) Company obtain a profit (premium) on the shares sold out to another party.

(vi) It is issued so as to raise additional capital offered first to existing holder then the public if existing holders do not take up

5. Underwriting of shares.

A public company is required to sell a minimum number of shares (called minimum subscription)

To secure the minimum subscription during the prescribed period the company may enter into contract (agreement) with an established source like banking institutions, Insurance firms or shares brokers to underwrite the issue. If the Company is not able to sell all the shares within the specified period then the contracting party ensures the sales of share is known as underwriting. That means that the underwriter undertakes to take the whole or portion of such of the offered shares which may not be subscribed for by the public. The underwriter make the payment of subscribed shares in fully to the company public. The underwrite is paid a commission as agreed between the parties and also authorized by the Articles. This is because the risk of the shares is transferred to the underwriters,

Advantages of underwriting

(i) They take up shares that are not taken up by the public

(ii) They help company in fulfilling statutory regulations and minimum subscription.

(iii) They assure quick sale of securities in the market.

(iv) Stimulates industrial development and creates more employment opportunities in the country

(v) They stand guarantee and help the promoters in undertaking the risk of starting or enlarging a project.

(vi) They provide information in regard to capital market condition, general responses of investors to issuing company.

(vii) When the issue is underwritten, the company is assured of the required capital

- (viii) If the underwriters have good reputation in the market, it raises the status of the company
- (ix) The company can get the benefit of specialized knowledge of the underwriters in the marketing of stock and shares and this can help the company in future ventures.
- (x) If the public subscribes to the share then the underwriting contract can also be dissolved

Share warrant

Is a bearer document of title to share and can be issued only by public limited Company and that to against full paid u shares. Only it cant be issued by private limited company because the share warrant states that the bearer is entitle to a number of hares mentioned in. It is a negotiable instrument and is easily transferable by mere delivery to another person. The holder of share warrant is entitled to receive dividend as decided by company

7.Stock

Is a type of security that shown ownership in a corporation (w) and represents a claim on part of the corporations assets and earnings. Ownership in company is demined by number of shares a person owned divide by total number of shares outstanding. Also called equity.

$$= \frac{\text{Number of shares a person owned}}{\text{Total number of shares outstanding}}$$

OR

Stock is the name given to a block of shares. Shares may be converted into stock if there is a provision in the Articles of Association. Shares can be converted into stock only if they are fully paid up. That is how the word joint stock company was introduced to describe limited company

DISTINCTION (DIFFERENES BETWEEN SHARES AND STOCK

	Point of Distraction	Share	Stock
1	Creation	It may be full paid up or partly paid	It must be created out of fully paid up shares
2.	Numbering	Shares must bear distinctive numbers (shares are serially in order) number	Stocks are not number
3.	Divisibility	A share cannot be further divided into small portion. It can be issued and transferred into term of complete share. They can't be divided below the face value of each share	It is visible and it can be issued and transferred in fractional unit so is a convenience method of transferring.
4	Face	Each share has definite face value	Each stock may have any face value
5.	Nature of issue	It can be issued directly to raise capital to raise capital of the company. It can be issued when company is incorporation	It can be issued directly for any purpose. It can be issued under such circumstance. Only fully paid up shares are converted into stock
6	Position	A share means a share in the share capital. It is a single limit into which the capital is divided.	It is a fractional amount of the capital of the company. But included group of shares into which the capital may be divided.
7.	Representation	Share represents shareholders of the company and in respect to this share certificate is issued to each shareholders	Stock represents stock holders of the company and in respect to this stock certificate is issued to each shareholder.
8.	Investment	Share indicate the amount invested in one company	Stock indicates money invested in one or more company
9	Registration and transferability	Share are always register and not transferable by mere delivery	Stock may be registered or not and unregistered stock can be transferred by mere delivery

Difference between Transfer and Transmission of shares

1. Transfer of share means transferring the shares on the name of same other person on a voluntary basis while transmission of shares means passing the property/title in shares by

operation of law from member to his legal representative on either death, insolvency or lunacy of shareholder.

2. Transferor or transferee takes initiative of transferring shares while the legal heir of the deceased shareholder takes initiative of transmission of shares.
3. The transmission is not a deliberate action but result of operation of law after he dies, becomes bankrupt or insane while in transfer it is a deliberate action by shareholder
4. In transfer stamp duty is payable on market value of shares while in transmission duty is payable
5. Transmission can't be refused as it is under operation of law while in transfer the directors can refuse on certain ground. In transmission certain documents like court order of insolvency, death certificate are required while in transfer an instrument of transfer has to be duly executed by transferor or transferee.

METHODS OF SHARE ISSUE

1. Offer by prospectus

Direct approach to the public share and sold at a fixed offered price.

2. **Offer for sale**

A company will sell its entire issue to an issuing house which then sells them to the public at or slightly higher price to cover fees and expenses

3. **Offer by tender**

Rather than fixing the price in advance, company sometimes issues shares to the public by inviting them to state a price at which they are prepared to buy. The issue price is then fixed according to

demand and anyone offering less than this receives no share. (each person states minimum price and company gives to person whose set maximum price.

4. **Placing**

A large number of share issues are placed by the issuing house with a selected group of its clients, usually large financial institutions rather than the general public.

5. **Rights issue**

Existing shareholders are offered the right to buy additional shares in the company at a price lower than market price.

6. **Bonus issue**

Share issued free to existing holders in proportion to their holdings eg bonus issue for every 10 shares held. This makes shares more marketable by reducing their market price.

7. Scrip issue

Sometimes instead of paying a cash dividend, a company offers shareholder a choice of receiving instead of extra shares

WHY DO SHARE PRICES FLUCTUATE

1. It changes according to the market's activity. The buyer and sellers cause prices to change and therefore share prices change as consequence of demand and supply, It's this dance between buyers and sellers, demand and supply that decides how valuable each share is
2. If more people want to buy share than sell it the price goes up conversely, if more people want to sell share than buy it, there is more supply than demand, the price goes down.
3. Shares represent ownership in a company. So even if you own just one single share of a company, you own a part of it no matter how minute. Therefore the price of share indicates what investors feel the company is worth.
4. If a company's earnings (profits) are good and its price jumps up. But if the company makes no money, then the price of share will fall
5. Investors' decisions are influenced by their outlook and opinions. When the outlook is positive investors are eager to buy so prices rise but when it is negative they are eager to sell so price.
6. Technical factors. Stock prices move in trends. Investors are attracted by rising prices and spooked by falling prices. Specialists make sure that prices constantly change in order to draw in buyers and sellers.
7. Changes in government policy such as restrictions on consumers spending will probably cause a fall in the share price of company. Restrictions on spending cause a low money supply hence prices of shares automatically decrease.
8. When the market conditions of a country are bad i.e. there is recession then price of all commodities will fall which means even price of shares will be low.
9. Changes in the rate of interest of the government securities will sometimes affect share hence the price of shares decreases.
10. World political and economic events will have an effect on share of company especially those which have large export trade. This is because those companies get affected with all the issues going on in other areas where their goods are being exported to.

MINIMUM SUBSCRIPTION

A company can not allot shares unless the amount mentioned as minimum subscription is received within 120 days of the date of the issue of prospectus. Minimum subscription is that part of the issued capital which should be received within 120 days. It is the minimum amount which in the opinion of the directors is necessary to provide for the following.

- (i) Purchase price for any property
- (ii) Underwriting commission if payable
- (iii) Preliminary expenses
- (iv) Repayment of money borrowed for any of the above purposes

(v) Working capital or any other expenses

(vi) Restriction of minimum subscription is meant to prevent the formation of companies with inadequate capital so that only companies which can raise enough capital and meet the minimum requirement are allowed to start their business

NOTE

When a company is unable to raise required capital through selling shares, it may resort to the following;

- Through bank loans and overdraft
- Borrowing from friends
- Asking promoters to contribute more money
- By issuing debentures

DEBENTURE

The term “debentures” is derived from the Latin word “debere” means to own a debt. Therefore a debenture is a long term finance raised by a company through public borrowing. If a company finds its authorized share capital inadequate it can raise money by selling debentures for its long term financial needs.

A debenture is a document (Loan certificate) that works as a proof of evidence that a company has borrowed a specified sum of money advanced or lent to the company. Debentures are of fixed amount say shs 1000 and bear a fixed rate of interest. The interest on debentures is an expense to the company which must be paid whether the company is running at a profit or not. Debentures are loan or borrowed capital of the company.

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Main features of Debentures

- It is an instrument indicating the indebtedness of the company
- It has a nominal value like share
- It is a document issued under the seal of the company

- (iv) The terms of issue, the repayment of the principal are specified
- (v) A fixed rate of interest is paid on debentures' This interest is a charge on the profit and loss account of the company
- (vi) Generally the debentures are covered company
- (vii) In case of winding up debentures holders are paid their money before the shareholders
- (viii) The rights and power of debenture holders are mentioned in the certificate issued at the time of accepting loans.

TYPES OF DEBENTURES

Debentures may be classified into two ways (According to the security pledged against them)

1. Necked/ordinary/Simple/unsecured debenture

These are types of debentures which are not secured. No property is pledged against them. If the company goes bankrupt or liquidated the holder of necked debentures are ranked amount ordinary creditors of the company

2. Mortgage/secured debenture

These are debentures which are secured. Some properties of the company are pledged against them. If the company is pledged against them. If the company goes bankrupt such properties can be sold to pay off the holders of mortgaged debenture.

b) According to redemption

1. Redeemable debentures

These are debentures which are bought or repayable back by the company such that the amount borrowed against them is refunded by the company after a specified minimum period and before a specified maximum period eg 2,3,4,5 or 20 years. The interest is paid periodically but the principal amount is returned after a fixed period.

Irredeemable debenture

These are debentures which are never refunded or not repayable by the company refunded or not repayable by the company, the money borrowed against them remains outstanding until the Company is liquidated/winds up

c) According to registration

1. Registered debentures

These are debentures which are issued in the name of the owners of the debenture, in that the name of the owner appears on the face of debenture as well as in the books of the Company

2. Bearer debentures

This are debentures which do not show the name of the owners on the face of the debenture. Is entitled to receive interest payment on the due dates

(d)According to convertibility

This are debentures which do not show the name of the owners on the face of the debenture. The holders of bearer debenture is entitled to receive interest payment on the due dates

(2) In convertible debentures

These are debenture which can not be converted into shares of the company

DIFFERENCES /DISTINCTION BETWEEN A SHARES AND DEBENTURE

NO	SHARES	DEBENTURES
1	Is a unit of capital for the company	Is a unit of loan
2	A shareholder is the company owner	A debenture holder is a creditor of the company
3.	Payment to the share holder is a dividend	Payments include interest plus the principal amount which is an expensive to the company
4	Shareholders in most cases get dividends when only the company has made a profit	The debenture holder receives interest whether the company makes profit or not
5.	They are usually irredeemable, ie not easily bought back by the company	They are usually redeemable that is easily paid back by the company at any time or at maturity
6.	Shareholders carry voting rights and participate in decision making	By low they do not have voting right in matters of the business
7.	The dividend rate is based on profits and directors proposal	The interest rate is fixed at the time to issue
8.	Shareholders are paid last and even they do not get anything when the company is winding up if the available money is inadequate	If the business is winding up, debenture holders must be paid before share holder.

CONVERSION OF A PRIVATE COMPANY

There are several restrictions on private company which may result in a limited financial resources, limited production activities, limited technical and administrative abilities. Due to these factors business may not be expanded and private company faces high cost per unit, limited sales and low profit. These hindrances constrain to decide in conversion of private company into a public company.

In order to convert into public company, it is necessary to alter the articles of association by a special resolution. The following alterations have to be brought in the provisions of articles of Association.

- (i) Shareholders may transfer their shares
- (ii) They may invite the public for subscription of shares and debentures
- (iii) Maximum number of shares i.e. fifty will be struck off from the articles.

New Articles of Association will be submitted to registrars office within two weeks of such alteration

The following necessary documents must be filed with registrars office along with altered articles of Association

- (a) A list of persons containing their names addresses and other particulars who have agreed to act as directors
- (b) The written consent of the directors
- (c) Declaration of the directors that they have paid the qualification shares
- (d) Declaration of the directors that they have paid their qualification shares or statement of the fact that they have already taken up and paid for their qualification shares.
- (e) A prospectus or statement of live of prospectus
- (f) A declaration from the directors or secretary or advocate that all the provisions of the company's articles have been fulfilled.

After submission of the foregoing documents to the registrars office, private company may be converted into public Company

TERMINATION OF A COMPANY

(WINDING UP OR LIQUIDATION)

This means that the end of the life of a company. In simple words it's the closing down of the business.

As we have discussed earlier that a company is created by law therefore it cannot die a natural death like a human being. The termination of its existence is affected law. Thus winding up of the company is a legal procedure.

When a company is a legal procedure. Its property is administered for the benefits of its creditors and members it is called winding up or liquidation.

What is liquidation?

Is the process of closing or termination a company through selling of its assets normally for cash

A LIQUIDATOR

Is a person or institution appointed by shareholders or creditors to supervise the liquidation of a potential company including the valuation of company assets and liabilities.;

- Deal the payment of company debts
- Work on any surplus or deficit after liquidation.

METHODS/WAYS/MODES OF WINDING UP OF A LIMITED COMPANY

(PRIVATE AND PUBLIC COMPANY)

1. Compulsory winding up by court
2. Voluntary winding up
3. Winding up under supervision of court
4. By having its name struck off the register by the registrar

1. Compulsory winding up by court. The main reason for winding up by the court are as under

(a)Special resolution

A special resolution has been passed by the company to be wound up by the court

(b) Failure to commence business

If a public company does not commence business within one year of the date of its incorporation or suspends business for a certain period, the court may order its winding up

(c) Statutory report or Delay in meeting where default is made in not submitting the statutory meeting within prescribed time or has not held two consecutive annual general meetings.

(d)Members reduced below minimum

A public limited company may be wound up by court if its members are reduced below seven (7) and less than two (2) in case of private limited company

(e)Inability to pay its debts

(f)Where the court is of opinion that it is just and equitable that the company should be wound up

2. Voluntary winding up

Voluntary liquidation is initiated by resolution of the company itself. A company may be wound up voluntarily in the following circumstances

(i) When the period (if any) fixed by the articles for the duration of the company has expired or when the event (if any) has accrued upon occurrence of which the articles provide that the company has passed an ordinary resolution requiring the company to be wound up

(ii) When the company has passed a special resolution resolving the company to be wound up voluntarily

(iii) When the company has passed an extraordinary resolution to the effect that the company cannot carry on business owing to its liabilities and that it is advisable to wound up

(iv) The death of the founder and owner may result in any shareholders choosing not to continue operations

(v) Liquidation is actually a means of helping the company to continue. Companies that are encountering a period of loss may choose to liquidate subsidiary companies as a means of settling outstanding debts of the parent company.

(vi) The voluntary winding up of the company is of two kinds.

(a) Members voluntary winding up/shareholders voluntary winding up

A voluntary liquidation is an action that may be taken by share holders of a company in order to honor the outstanding debts of the company in order to honor the outstanding debts of the company. With a voluntary approach to liquidation, the directors and shareholders agree to the process and initiate the procedure willingly, with no outside pressure or other entity. In this case the directors of the company are required to file a declaration of solvency.

The declaration of solvency is the document that states that the directors believe that the assets of the company will be sufficient to pay off its debts. The directors will then appoint a liquidator liquidators are professionals who task of identifying and selling off all the assets associated with business entity.

A liquidator may be appointed by court as part of the dissolution process of a company or be hired by the company as part of voluntary liquidation process. In this scenario, liquidations of all major assets will commence. Once all assets are placed in news papers and other media for the creditors to come forward to prove and claim their debts, All outstanding debts are settled first, the share holders thereafter divide the remaining assets and the company will be considered closed. On the appointment of the company cease to exist. The liquidator calls the final meeting of shareholders and he submits a final account of the company affairs to the members and sends a copy to the registrar. Then after that the company is dissolved and ceases its legal entity.

(b) Creditors voluntary winding up

A company may pass a resolution at general meeting that it cannot continue its business due to heavy liabilities, Then a creditors meeting is called by sending each creditor with a written notice for this purpose. The creditors are given the full statement of the company position the full statement of the company position the list of creditors and their estimated claims. Then the creditors appoint a liquidator who exercises his powers for the winding of the company and supervises the sale of assets and payments to creditors. On completion of winding up, the liquidator have to call a final general meeting of the members and a meeting of the creditors. The notice for such meetings are usually published in the news papers. In the meeting the liquidation has to give reports regarding the accounts and assets of the company. A copy of the

report is also sent to the registrar. The registrar on receiving the accounts and other relevant documents takes the action of dissolution of the company.

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3. Winding up under supervision of court

A court can also order the winding up of the company under the following conditions.

- (i) If the court is satisfied that the company is unable to pay its creditors.
- (ii) When there are frauds or irregularities in the voluntary winding up
- (iii) The liquidator performs his duties in a partial manner. In that case the court can appoint an official receiver who carries on the process of winding
- (iv) If the rules of the winding up are not completely followed.
- (v) The liquidator is not taking a keen interest to dispose of the company assets

4. Striking off the register

A company may be struck off the register by the registrar. This may take place when the registrar has reasonable ground for believing that the company is defunct. He gives due notice to the company at its registered office of his intention to strike it off the register.

DISTINCTION / DIFFERENCES BETWEEN PARTNERSHIPS AND JOINT STOCK COMPANIES

NO	PARTNERSHIP		JOINT STOCK COMPANIES
1	Governing law	Law of contract act cap 345	Companies Act 2002
2.	Membership	Have a minimum of 2 persons and a maximum of 20 people	Private companies have a minimum of 2 persons and a maximum of 50 people and no limit for a public companies
3.	Entity	No separate legal entity distinct from members compassing	A separate legal entity distinct from its members
4.	Liabilities	Unlimited. Each member is personally warble for the debts for the firm	Limited to the extent of either unpaid shares of amount guaranteed.
5.	Management	All partners are involved.	Vested in Board of Directors
6.	Authority of members	Each member has implied authority to bind co-partners by acts done in the ordinary course of business	Share holders have no authority to bind the company or co- shareholder
7.	Transfer of interest	Must be with consent of all partners	Private company with prior permission of Board of Directors Public Company shareholders may transfer his interest without restriction a transferee succeeds to all rights of membership.
8.	Audit	A legal necessity only if the turnover is big	A legal necessity
9.	Winding up	No legal formalities	Legal formalities involved

PARASTATAL ORGANIZATIONS

Are those organization which are partly or wholly owned and managed by state (government) which engaged in either production activities or previous of services.

These organization mostly established by the act of the parliament e.g. TRA , DAWASCO, TANESCO, UDA etc

Types of parastatal organizations

There are two types of parastatal organizations namely as

1. Authority
2. Corporations

The following are the sources of finance to parastatal organizations

- Loans
- Share capital
- Dividends
- Grants
- Subsidies
- Other external aids

DIFFERENCES AND SIMILARITIES BETWEEN PARASTATAL ORGANIZATION AND PUBLIC COMPANIES

DIFFERENCES

- Appointment of directors and their removal in parastatal is done by the president while in public companies is done by shareholders
- Membership majority of shares in parastatal owned by the government while in companies majority of shares owned by the public
- Parastatal do not prepare memorandum of association and articles while in preparation of companies there must be
- Dividends, while dividends in parastatal is taken by the government while in public companies dividends will be shared by shareholders

Similarities

- Both aimed at providing services to the public
- Both are managed by board of directors
- They both own properties like assets, stocks, bank etc
- They both subjected to liabilities like creditors liabilities

ANALYZE THE PROBLEMS FACED BY PARASTATAL WHICH MAKE THEM FAIL TO EXIST

-Mismanagement and misappropriation of fund (fraudulent)

-Lack of competent and qualified personnel/staffs

-Lack of sufficient markets

-Market competition

-Bureaucratic capital

How these problems were solved

The decision taken by the government to solve problem faced by these parastatal organization was to

-Privatize

-Liberalize

WHAT IS PRIVATIZATION

Refers to the concept of changing public owned sectors like companies and parastatal organizations to be owned by private people

WHAT IS LIBERALIZATION

Refers to the concept of creating free market and trade to bring about competition in the provision of public services

What are the impacts of privatization and liberalization of trade in Tanzania

Positive impacts

- It attracts foreign strategic investors in a country
- It encourages competition
- It reduces government burden and responsibilities
- It facilitates transfer of new technology from foreigners
- Creation of employment opportunities
- Provision of varieties of choice due to existence of many industries
- It leads to the improvement of living standards of the people
- It creates international relationship between countries
- Act as a source of government revenue/income

Negative impacts of privatization

- It leads to the loss of jobs to unskilled labors due to the introduction of new technology
- It leads to destruction of culture
- It leads to the cost sharing policy on social services
- It may cause economic instabilities
- It leads to emergence of classes/inequality
- Increase in the cost of living
- Decline of domestic industries due to high level of foreign competition
- It increases dependent ratio in the country

Positive impacts of trade liberalization

- Competition
- Employment
- Reduction of government burden
- Revenue
- Attraction to foreign investors

- Varieties of choice
- Freedom of production and consumption

Negative impacts of trade liberation

- Decline of domestic industries
- Destruction of culture

Emergence of classes

- Loss of jobs
- Cost of living increased
- Economic instability

OPERATING A BUSINESS UNIT

All business units whether incorporated or unincorporated are operating within government bodies called BRELA and TIC

WHAT IS BRELA?

Is the term refers to business registration licensing agency which is an agency of the government given an authority and established to provide and ensure that all business are operated in accordance with the laid procedures and regulations as well as sound commercial principles.

FUNCTIONS OF BRELA

1. To ensure that business comply with the laid down regulations to the satisfaction of government and business community
2. To encourage and facilitate local and foreign business environment
3. To administer company and names laws
4. To administer intellectual property laws
5. To improve service delivery by the adaptation of modern business practice
6. To protect development of creativity in artist, literally works with the right of owners

CO-OPERATIVES

Introduction

The word “Co-operative” is formed from two words “Co” meaning together and “operate” meaning work.

Hence a Co-operative society is a group of people who have agreed to carry out activities to attain a common objective.

Definition:-

Co-operative is a voluntary association of individuals who make efforts to achieve interest of its members.

OR

It is the type of ownership whereby people with common interest join together to achieve certain economic and social objectives.

Co-operative societies differ from other major forms of business organization because they are not set up to make profit, but to help the members.

A Co-operative society is formed by at least 10 people (members) who wish to help themselves. Members of the society draft rules and regulations for the purpose of governing their society.

In Tanzania Co-operative societies started during colonial period with the prime objectives of assisting farmers, in production and marketing crops.

Co-operative societies continued existing even after independence until 1976 when they were abolished after failing to meet their primary objectives.

FORMATION OF A CO- OPERATIVE SOCIETY

In East Africa, a minimum of 10 people aged 18 years and above may come together and form a co-operative society. No member is allowed to subscribe more than 20 percent of the society's share capital.

The steps involved in the formation of a co-operative society are as follows:

1. Ten (10) or more people come together.
2. They draft the by-laws for the society.
3. The by-laws are submitted to the commissioner for co-operatives for approval and registration of the society.

4. A certificate or registration is issued to the new society by the commissioner for Co-operatives. Once this certificate has been obtained, the society can start operating.

FACTORS NECESSARY FOR THE SUCCESS OF CO-OPERATIVE SOCIETY.

1. **Adequate financing/sound economic base.** A co-operative society needs money for erecting office and storage buildings, setting up processing plants, purchasing transport vehicles and farm inputs, and for paying farmers promptly on delivery of produce.
2. **Adequate volume of business.** The volume of business should be large enough to enable a society to benefit from economies of large-scale operation.
3. **Goals and objectives:-** The goals and objectives of a co-operative must be clearly defined and known by every member.
4. **High level of managerial ability and honest.** Weak management led to the collapse of many co-operatives societies. Leaders must be honest. Managers and their staff should be trained on how to run a business, including book-keeping.
5. **Interference.** There should be no or little interference in the day to day activities of the management staff by committee members.
6. **Loyalty.** All members should be loyal to the co-operatives so that they can fully support the societies activities.

PRINCIPLES AND CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

These are the rules and regulations set to govern co-operative societies.

For an organization to be called a co-operative society, it must adhere to the following principles:-

1. **Open and voluntary membership.** It is a voluntary association of people and membership is open to all those who can fulfil the requirements of co-operatives. The minimum number required is 10. Those wishing to join a co-operative must be adult (18 years of age and above). Also member are free to leave and are not limited by social, political, tribal, racial or religious differences.
2. **Democratic administration.** The affairs of the co-operative is and must be administered/managed in a “democratic manner” Each member must have only “one vote” even if the holds a great number of shares he sells or buys from the society in a large quantity. The principal states “one man one vote”.
3. **Equality.** All members in a co-operative society are equal regardless of their religion, race, political status, tribe, height, sex, age, financial status, e.t.c.

4. **Dividends or repayments.** Profits made by the co-operative society are distributed amongst members in a form of dividends or repayments, at the end of the trading period according to one's contributions towards the co-operative. However, this is not based on capital contributions, but according to how much a member has sold to co-operatives. (incase of producers) or has purchased from the society. (incase of consumers).
5. **Limited interest on share capital ideally,** co-operative societies do not pay interest on share capital. But if members provided for it in their constitutions, the interest given should be fixed, and should be known by all members.
6. **Share capital.** A person is considered a member after contributing to the required capital by buying the minimum number of shares. However, a member may hold several shares up to a specified limit.
7. **Promotion of education.** It is one of the duties of co-operative society to teach its members the principles and techniques of co-operatives including how to produce economically, how to make use of new technologies, etc.
8. **Neutrality.** This principle states that co-operatives should not take sides in any political social or economic affairs. A co-operative is expected to be free from the influence of politics, tribal affiliation, religion and other bias that can affect its performance.
9. **Cash payment.** Basically all sales to the society and purchases from the society are made based on current market prices and for cash only.
10. **Honest.** Its members must not be dishonest and selfish. All the activities must be carried on honestly and fairly. Even the elected executive members of the society who manage the affairs of the society should be men of character and integrity.
11. **Co-operative with other societies.** There should be co-operation among societies, not competition. They have a lot in common and can learn from each other. Or Co-operative society should co-operate with each other locally, nationally and internationally if they are to function efficiently and serve their members better for instance, one society could help another to transport its goods to the markets and another can assist it with the means of transport.
12. **Solidarity.** There must be trust and confidence among members for the successful operator of the society. The members must be united while taking any decision regarding certain matters.
13. **Mutual confidence.** The co-operative members should have mutual confidence and trust in each other they should work like a team in achieving the objectives of the society. There must be spirit of "self-help" amongst the members.
14. **Liability of the members of the society may be limited or unlimited.** The members can decide about their liability at the time of registration. In case of limited liability society, the liability of members is limited to the amount payable on share held by them. But in case of society with unlimited liability the members are, on liquidation, jointly and severally liable for all the obligations of the society.

15.Economy.

All the activities of the company must be carried on economically and members should try to avoid unnecessary expenditure and wastage of the resources. The money should be spent wisely and in the best interest of the society.

A cooperative is another form of business units under private sector. It involves an association of individuals or firms whose purpose is to perform some business function for its members.

A cooperative society differs from other major forms of organization as it is set up not for earning profit as its main motive but with the basic object of organizing to render services to its members. The main rule of co-operative society is EACH FOR ALL and ALL FOR EACH.

MOTIVES FOR ESTABLISHMENT OF COOPERATIVES

Economic factors. Desire to improve man's economic position through improved income and better services.

Social factors. Desire to attain social recognition and protection.

Political factors. As the country encourage co-operative the cooperative members should abide country's rules and regulations and give moral and material support to encourage cooperative organizations.

FEATURES OF COOPERATIVE SOCIETIES.

(i)Registration. A co-operative society is registered under the co-operative society Act of a country. Being a co-operative body, it enjoys certain privileges which are subject to control and supervision of the state. A co-operative society enjoys perpetual succession and has its own common seal. It can enter into contact with other persons. It can file and defend suit's, and also open bank accounts in its name.

(ii)Values. co-operative are based on the values of self-help, self responsibility, welfare, democratic, equity and solidarity. Members come together voluntarily for their mutual benefit in the spirit of openness, social responsibility and caring for other.

(iii)One man – one vote. In co-operative society, member has only one vote irrespective of shares held by him. The principles of one man vote makes the society truly democratic. All the members are treated as equal control does not rest with few individuals as in other firms or organization.

(iv)Service motive. A co-operative society is primarily set up for rendering services to its members in a particular field. A society however, is not prevented to earn profit on the services provided to non-members.

(v)Religious, Tribal and Political Neutrality. A co-operative society, without considering religious faith, ethnic and political affiliations works for the social and economic betterment of its members. It enjoys autonomy and independence.

(vi)**Economic prosperity for the weak.** A co-operative society aims to empower economically weak people by looking after their own affairs in co-operation with another. In a country like ours, wealth is in few hands. It has split up the society into two groups, i.e. rich and poor. A co-operative society can help the common man to get together with others like himself to safeguard their common interest. There is economic participation of all the members which helps them improve their standard of living.

SOURCES OF CAPITAL

A co-operative society can raise capital from the following sources.

a)**Members.** A co-operative society gets some of its capital from members in the following ways:-

- (i) Registration fees charged to members.
- (ii) Amount contributed by members for the purchase of shares in the society.
- (iii) Fees charged on the proceeds from the sale of members' produce, and
- (iv) Interest earned on money loaned out or farm inputs advanced to members.

b)**Financial institutions.** A co-operative society may also raise capital by borrowing from a bank or any other financial institution. The amount borrowed is however repaid with some interest. The co-operative may also earn interest on money it has deposited or invested in financial institutions.

c)**The co-operative itself.** A co-operative society may decide to retain part of its profits in the business with a view to expanding its operations. Retention of profits means that members would be paid lower dividends.

FORMS /TYPES OF CO-OPERATIVE SOCIETIES.

Co-operative society is classified according to the activities they perform including:-

1. Producer co-operative societies.
2. Consumer co-operative societies.
3. Saving and credit (thrift and loan) co-operatives.
4. Service co-operatives.
5. Processing co-operatives.
6. Wholesaler co-operative societies.

1. **Producers / grower or agricultural marketing co-operative societies.**

A producer co-operative society is owned and operated by producers to collect, process, transport and market their products like cotton, tobacco, coffee, tea, fish and retain the profits for the owners. Dividends are paid according to how much produce the farmer sells to the society.

The principal function of producers co-operative is to protect the producers against exploitation by individual buyers. Examples of such co-operatives include agricultural marketing co-operatives which are very common in many countries.

Advantages / Roles of agricultural/producers/ marketing co-operative societies.

- (i) Buying of produce from farmers at fair price.
- (ii) They provide transport to collect and deliver produce to the market.
- (iii) Farmers get advice regarding better methods of production from co-operatives e.g through seminars.
- (iv) They normally sell farm tools and equipment (e.g hand hoes, bush knives, ox ploughs) and other agricultural inputs (e.g fertilizers, pesticides, animal drugs, herbicides) to farmers at subsidized prices.
- (v) They also extend short-term loans to farmers to improve and expand their operations.
- (vi) They provide storage facilities for farmers produce before and after processing, hence encouraging more output.

2. Consumers' co-operatives.

These are societies which operate wholesale or retail shops and their main objectives is to assist members. They give special consideration to co-operative members, to whom they supply consumer goods and services at slightly lower prices than non-members.

Advantages of consumers co-operatives

- (i) They offer goods to members to lower prices.
- (ii) Goods are brought nearer to consumers which reduce the risk of accidents, robbers and transport cost
- (iii) The members enjoy credit facilities for essential goods e.g soaps, clothing, e.t.c
- (iv) It promotes social understanding among members who live near each other.
- (v) Members get a chance of getting advice from their colleagues.
- (vi) The liability of members is limited to capital contributed. If the co-operative incurs debts their personal belongings are not sold.
- (vii) Members have equal rights as regards the co-operative affairs.

Types of consumers co-operative societies.

There are two types of consumer co-operative societies. Retail co-operative societies and wholesale co-operative society.

1. Retail consumer co-operative societies.

These are retail business owned and operated by a group of final consumers. Their major aim is to buy goods cheaply and distribute them to members at minimum price. They normally provide quality goods to their members. The retail co-operative societies own supermarkets where members can shop. They not only serve the members but also general public to whom they sell goods at the prevailing market price.

2. Wholesalers co-operative societies.

These are larger co-operative societies. They are composed of retail co-operative societies who join together to form their own wholesale business from which they buy. They extend credit, stock a wide variety of goods and provide storage facilities for the members.

Functions of wholesale co-operative societies

The wholesale co-operative society perform a wide range of functions. These include:-

- (i) They import various kinds of goods and provide storage facilities for member society.
- (ii) They extend credit facilities to member societies, hence enabling to continue operating.
- (iii) Sometimes, they establish industries to produce the required goods. Thus, they facilitate the country's economic development.
- (iv) They buy goods for their members and sell to members at fair prices.
- (v) They distribute the profits according to the purchases made by members of the society.

3. Saving and credit (thrift and loan) co-operatives.

These are purely financial institutions aimed at encouraging members to save. They mobilize savings from members, which they then use to provide members with loan facilities for investment. Members deposit money in the society account, and are then given credit that is proportional to their savings.

Other forms of co-operative societies.

There are also societies in other sectors or ancillary services with the aim of safeguarding members interest like:

- Transport co-operative societies.
- Housing co-operative societies.
- Handcraft co-operative societies.

THE COMMON / GENERAL FUNCTIONS OF CO-OPERATIVES.

Functions of co-operatives depend on the type of activity in which the society is engaged. However, the common/general functions of those co-operatives include:-

- (i) **To cheapen the cost of living for their members** by say providing fair prices of commodities.
- (ii) **Reduce the marketing cost.** Co-operative reduce marketing cost to members because they are able to handle (store, transport) large volumes of commodities, economics scale
- (iii) **Collect produce from farmers.** Co-operative societies save farmers the costs of transporting their produce to the market by sending lorries to collect the produce directly from farmers or rural stores.
- (iv) **Storage of farmers produce.** Co-operative societies own stores where they store agricultural commodities before transportation to the processing centres and markets. They also store farm inputs and consumer goods before they are distributed to the members.
- (v) **Provide employment.** The co-operative movement currently provides over 100 million jobs and employs millions of people worldwide in various fields such as trade, transport, accounting, banking, management, manufacturing and research.
- (vi) **Education and training.** These services are available to members including managers at all levels. Through co-operatives, farmers are taught modern production and management techniques so as to use resources efficiently.
- (vii) **Mobilize saving and advance loans.** Co-operatives offer an opportunity to the members to save their funds, which are supplying farm inputs on credit, offering short-term loans, purchasing transport vehicles, constructing stores and setting up processing plants.
- (viii) **Stabilize agricultural prices.** Just after the harvesting season, prices of agricultural commodities tend fall so low such that farmers are unable to make any profit if they sell their produce at that time. Sometimes the co-operative societies buy the commodities from members at reasonable prices and store them until the prices normalize.
- (ix) **Process farmers produce.** Some co-operative are involved in processing farmers produce, e.g milk processing, oil extraction from sunflower and simsim and cotton ginning. This adds value to the product.

THE STRUCTURE OF CO-OPERATIVES.

The structure of co-operatives refers to the hierarchy of the co-operative movement. It shows the level at which various co-operatives operate. The level at which a co-operative operates depends on its membership.

The following are the levels at which various co-operative operate.

- a)Primary co-operatives
- b)Secondary co-operative or co-operative union.
- c)National co-operatives
- d)Apex co-operatives
- e)International co-operatives.

a)Primary co-operatives societies.

These are the registered co-operative societies whose members are individuals person within a local area, such as villagers who joined together to achieve a common goal. They are small entilies operating on small scale and with a limited amount of capital and human resources. Services offered to the primary society members include provision of farm inputs and credit facilities, purchasing farmers produce, providing storage and marketing the produce. They are considered important in the co-operative movement because they form of foundation on which a co-operative movement is built. They help in promoting small-scale rural agricultural production. The society is normally set up to handle a specific commodity such as coffee, tea, cotton, etc.

b)Secondary co-operative societies (co-operative union)

Primary societies identified certain activities that could be best done by number of societies joining together, and this led to the formation of co-operative unions. Thus the co-operative unions are an association made up of a number of registered primary co-operative societies. Co-operative unions provide services required by member societies for production, processing, transportation and marketing.

Secondary co-operation societies are larger than primary societies, and therefore have more resources. They have better access to equipment, finance and skilled personnel needed to perform the required work.

Functions of secondary co-operative societies.

- i. They co-ordinate the marketing activities between farmers and the Apex co-operative societies. They also act as a link between the farmers and marketing boards so that they have outlets for their produce.
- ii. The members are able to access credit through their primary societies.

- iii. They provide a centralized accounting system for primary co-operative societies.
- iv. They provide transport for the produce of the members.
- v. They coordinate and provide banking services to members.
- vi. They organize and provide training to staff and members of the primary societies.
- vii. They provide planting materials (e.g, seeds, suckers and cuttings), fertilizers and other farm inputs required by members of primary societies.

c)National co-operative Unions

National co-operatives form umbrella bodies for the various co-operative unions. Memberships of such co-operative comprise all co-operative societies and unions operating in a particular production line. National co-operatives promote the interests of the various member co-operatives both in the local and international markets.

d)Apex co-operatives

These are overall co-operative bodies to which all other co-operatives (i.e primary co-operative, co-operative unions and national co-operatives), are affiliated. It represents the interests of all co-operatives at the international co-operative alliance (ICA). In Tanzania, all co-operative unions are affiliated to the federation of co-operative unions of Tanzania (F.C.U.T)

Functions of the federation of co-operative Unions of Tanzania (F.C.U.T)

- i. To provide services for standardized book-keeping, Accounting and other procedures as well as audit services to the secondary societies.
- ii. To promote and assist educational and advisory work related to co-operatives.
- iii. To coordinate economic plans of the member societies and forward them for incorporation in the national plan.
- iv. To provide advice to member societies.
- v. To represent members societies in collective bargaining.
- vi. To reduce operating costs by making bulk purchases of various items.
- vii. To represent member societies in international meetings.

e)The International Co-operative alliance (T.C.A)

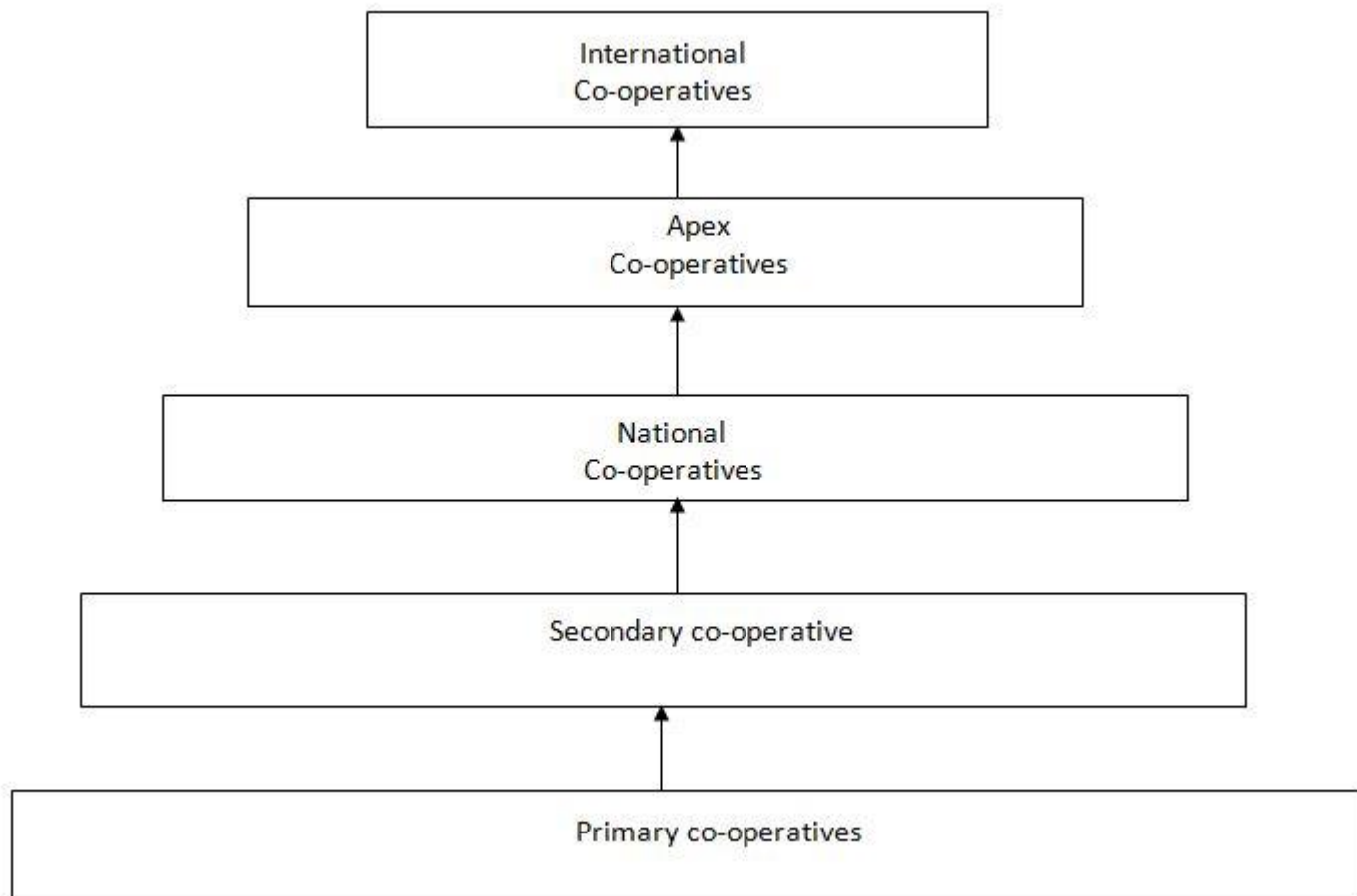
This is a worldwide body that brings together all co-operative organizations in various countries it formulates the basic guidelines for operation of the whole co-operative movement.

The objectives of ICA

- i. Provide co-operative education through conferences and publications.
- ii. Encourage co-operation among co-operative societies by promoting business relationships.
- iii. Help in financing, providing technical training with the major intention of promoting growth of individual societies.
- iv. Ensure that all co-operative societies follow the rules and guidelines of co-operative societies.

From the above discussion of the levels of co-operatives it is clear that co-operatives form a certain hierarchical structure. The society at the highest level of the hierarchical draws its membership from the various national co-operatives in the various countries of the world. The hierarchy of co-operatives can therefore be represented diagrammatically as shown below.

Fig. HIERARCHY OF CO-OPERATIVE.



Advantages of co-operatives

- i. **Low-cost services.** They offer services to members at low prices because of their low operating costs.
- ii. **Improved welfare of members.** They improve the economic welfare of members by enhancing their participation in economic activities.
- iii. **Encourage saving.** They encourage members to save, enabling them to accumulate necessary capital for their economic activities.
- iv. **Credit facilities.** They extend credit to members at low interest, thereby improving their members' economic welfare.
- v. **Limited liability.** The liability of members is limited to the amount of capital they have contributed to the society.
- vi. **Flexibility in membership.** Members can withdraw their membership from the society and have their shares refunded after giving two months notice to the management.
- vii. **Equality of members.** Members of co-operative have equal rights in the society irrespective of the number of shares held.
- viii. **Large capital base.** Most co-operatives have a large capital base due to high membership. They are therefore able to finance their operations easily for the benefit of their members.

Disadvantages of co-operatives.

- i. **Poor management.** Co-operatives sometimes face management problems, mainly because their system of choosing leaders does not take into account the skills and abilities that such people have.
- ii. **Interference.** Politicians and other people in authority could interfere with the leadership in co-operative, they by creating unrest. This has happened in many primary co-operatives.
- iii. **Membership withdraw.** A co-operative society may experience financial problems if many members withdraw their membership at the same time. Withdraw is very easy since membership is open and voluntary.
- iv. **Slow decision making process.** Members of co-operative have to be consulted first before any decision or policy is passed. Some of the societies are very large, thus slowing down the process considerably.

v. **Lack of secrecy.** Since a co-operative is run by many people, its affairs cannot be kept secret. Any activity that a co-operative wishes to undertake must also be approved by members.

vi. **Control problems.** Some co-operative have a large membership. Controlling affairs of such a gigantic (huge, extremely large) society becomes a problem.

CURRENT PROBLEMS FACING CO-OPERATIVES IN EAST AFRICA.

Despite the various roles played by the co-operative societies there are a lot of problems or bottlenecks that hinder them from carrying out their work effectively.

i. **Insufficient transport facilities.** Co-operative societies lack lorries to transport the produce from farmers to the collection centres and markets. Most of the agricultural production takes place in rural areas yet there are no good roads to link these areas to the markets.

ii. **Insufficient storage facilities.** Co-operative lack sufficient storage capacity, especially in rural areas where most of the production takes place. Sometimes they are forced to hire warehouses, and this increases the marketing costs.

iii. **Lack of collateral security.** Co-operative societies do not have enough collateral security to enable them to acquire loans from financial institutions. Individual hesitate to render their assets, such as land titles, to save as security for the co-operative to get a loan. Thus most co-operative societies operate with inadequate funding.

iv. **Lack of funds to facilitate the day to-day activities of the co-operatives.** Most co-operatives lack sufficient working capital because members have low incomes.

v. **Lack of competent managers.** This has led to mismanagement of the co-operatives. The majority of farm workers are not very well educated and, therefore, cannot efficiently organize and execute the daily activities of the co-operatives.

vi. **Lack of government support.** After introducing the policy of trade liberalization, the government stopped (financing) supporting co-operatives. As a result of structural adjustment programmes in the country, the ministry of co-operatives and marketing was reduced to a department under the ministry of Trade and Industry.

vii. **Corruption.** Embezzlement of co-operative funds by some officials and corruption among members worsened the situation of this made the co-operatives fail to achieve their potential. Tribalism and nepotism are rampant in some area, and endanger the unity of members.

viii. **Dishonest of some members.** Some members of the co-operative banking sector are not honest. They take out loans and fail to repay them. This may cause the society to close down.

ix. **Competition from private sector.** The co-operatives are faced with stiff competition from the private sector, where buyers of goods are ready to pay cash and higher prices which co-operatives cannot afford.

x. **Unstable prices of agricultural products.** Prices of agricultural products both on the local and international markets are unpredictable as they fluctuate so much that the co-operative society cannot predict sales.

SOME SOLUTIONS TO THE PROBLEMS OF CO-OPERATIVES

(i) **Putting up more storage facilities.** Government can be of great help in this. Some storage facilities have to be constructed in some parts of the country.

(ii) **Improving the co-operative management.** Management skills can be improved through inservice courses and seminars, e.g setting up of institutions where the managers can go for further training.

(iii) **Setting up payment schemes.** Establishing crop finance to ensure that farmers are paid promptly after delivering their produce.

(iv) **Provision of farm inputs to the farmer members.** Assistance for farmers in the form of machines and tools, fertilizers, planting materials, agrochemicals, e.t.c.

(v) **Provision of credit facilities with fair interest rate.** The government may introduce the credit scheme where farmers can borrow money to improve their agricultural production at a very low interest rate.

(vi) **Promotion of extension services.** By the ministry of trade and industry, Agriculture, etc and NGOs (non-governmental organizations).

(vii) **Expansion of both domestic and foreign markets.** Foreign and domestic markets can be expanded by expanding into Eastern and southern Africa (COMESA), by initiating barter trade arrangements.

FORMATION, ORGANIZATION AND FINANCE OF CO-OPERATIVE SOCIETY TANZANIA

FORMATION

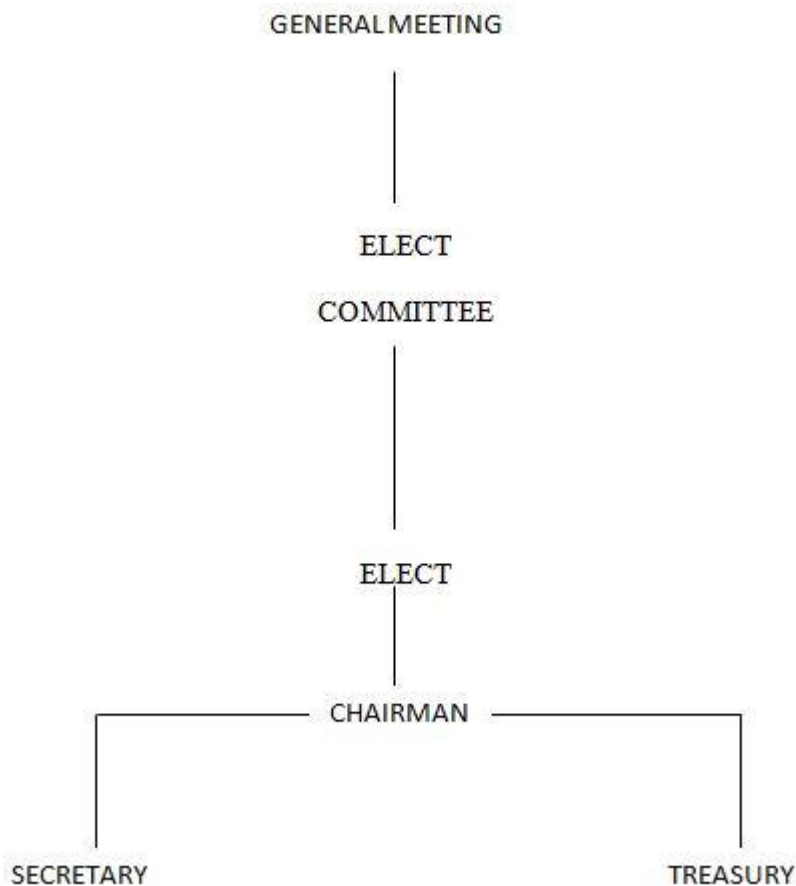
In Tanzania the cooperative societies are normally formed under a co-operative society ordinance. Each co-operative make its own by-laws under the rules of the co-operative act ordinance. Such rules have to be approved by the registrar of cooperatives. Each co-operative society or union operates under the principles of cooperation.

ORGANIZATION

The affairs of a co-operative are run by a committee which is elected by the members on a one vote per member basis. The committee is assisted by salaried staff, responsible for general running of the society. The committee remains off course, responsible to the general body of members, and its position is closely analogous to that board of directors. The principal differences are that the members are usually paid for their services and that they work on a part time basis. The committee has power to and usually does employ to assist in its various functions.

ORGANIZATION STRUCTURE OF A COOPERATIVE SOCIETY.

ORGANIZATION STRUCTURE OF A COOPERATIVE SOCIETY.



FINANCE.

The main source of finance to a cooperative society is the money received from members on entrance fee and cost of shares. Each member is required to take at least one share. A small interest is paid on share capital. Members are also required to pay small entrance fee at the time of registration as a member to cover expenses involved in the issue of the share capital. A society upon approval from members may retain a small part of the money received from the sale of produce brought in by members as a reserve to strengthen the financial position of the society. The money received by a society is used to acquire fixed assets for the society and covering several expenses.

Dissolution of co-operatives.

Co-operatives, just like companies, are formed to operate into unforeseen future. The following circumstances may, however, occasion their dissolution.

(i) **Agreement or disagreement of members.** If the shareholders of a co-operative persistently disagree, they could mutually agree to discontinue their association. This they may do by applying for deregistration. If their application is accepted, the co-operative ceases to exist.

(ii) **Insolvency.** If a co-operative is unable to meet its debts, it may be declared insolvent. Its assets could then be sold off and the proceeds used to pay the debts.

(iii) **By court order.** A court could also order a co-operative to be dissolved on application by one or more of the members who has/have good reasons as to why the association should not continue.

(iv) **The parent ministry** (i.e, co-operative Development) may order the dissolution of a co-operative in the interest of its members.

(v) **Withdraw of members.** Members of a cooperative may decide to join another cooperative society, leaving the original society with less than ten members. This will automatically occasion a dissolution as the minimum membership for a co-operative society required by the law is ten.

Differences between a co-operative society and joint stock company.

Differences between a co-operative society and joint stock company.

		Co-operative society	Joint stock company
1.	Membership	According to cooperative society Act, a minimum of 10 people are required to form a primary co-operative society.	For a private limited company, the minimum number of people required to form a company is 2 with an upper limit of 50 and a minimum of 7 people for a public company.
2.	Share capital	Has only one type of share capital.	Capital structure consists of different types of shares with different types of shares with different rates of interest.
3.	Joining	Anybody who wishes to join is welcome provided he/she is of age, and resides in the same area where the society is registered.	For anyone to join, he/she has to apply through the board of directors. It is not a sure deal that one must be accepted on submitting an application.

4.	Profit sharing	This is done according to how much one contributes to the development of the society.	Profit made are shared according to capital contributions by the members.
5.	Repayment of capital	Members can receive their capital on demand.	To get capital back, ones has to apply through the board of directors.
6.	Management	Society is controlled by an elected committee of management, which is constituted by members.	It is controlled by board of directors.
7.	Objectives	Major aims are to save members in order to improve their welfare.	Major aim is to make profit.
8.	Registration procedures.	Members need to get the required number, draft the by-laws and lodge them	Registration procedure is complicated. Major documents must be

		with the registrar of co-operatives societies the co-operative is then immediately allowed to transact business.	prepared and approved by the registrar of companies.
9.	Voting rights.	Each member is entitled to one vote.	Voting depends on the number of shares held by each member. People with many shares have many votes. Each share held, entitles the member a vote.
10.	Issue shares	Shares cannot quoted on the stock exchanged and they do not fluctuate.	Shares are quoted and sold through the stock exchange. They fluctuate in a value.
11.	Opening capital	The co-operative society issues as many shares as possible depending on the amount of capital need.	The company issue shares equivalent to the amount of registered capital. If more money is needed, the directors have to seek permission to issue more shares from the registrar of companies.

PUBLIC SECTOR (PUBLIC ORGANIZATION)

These consist of business organizations where the government is responsible for the profit and loss in any business undertaking. It involves all those business, trade and industrial activities which are carried on under the ownerships and management of the government.

It is regarded most essential to promote the welfare and economic activities of a country.

FORMS OF PUBLIC ORGANIZATIONS

- (i) Public corporations
- (ii) Local authorities and
- (iii) Parastatal bodies.

Features of Public sector / organization

- (i) Established by an act of parliament which define its powers and functions.
- (ii) Government is responsible for profit and loss.
- (iii) Its Board of Directors is formed by the government.
- (iv) The share capital is raised by selling shares and the government buys most of the them.

1. PUBLIC CORPORATION

A public corporation Is a commercial organization owned by the state.

OR

A public corporation is a joint stock company in which the government holds 51% of shares and the public holds or own 49 percent of shares.

In such business, the government has more say and can influence decisions such as the price at which goods and services are sold, appointment and termination of managers, etc. Public corporation operate as an ordinary joint stock company and aims to make profit out of its operations. Public corporation is similar to joint stock company because:-

- (i) It is a legal entity.
- (ii) It is self governed.
- (iii) It is self – financing and operations on commercial lines.

Differences between Public corporations and Joint stock company

- (i) A corporation is usually state owned by individuals.
- (ii) A corporation has unlimited liability while joint stock company has limited liability.
- (iii) Most corporations have monopoly while joint stock companies have no such status.
- (iv) Corporations operate not only for profit but in public interest by the representatives of the public while joint stock companies operations for profit only.
- (v) Corporations are financial mostly by the Government while joint stock companies are financed by individuals .

FORMATION:-

Public corporations are formed by specific Acts of Parliament which the ministries define their powers, duties and overall mandate.

The law creating corporations also states the ministries under which they will operate legal personalities (i.e they are body corporations. Some public enterprises are established under the Companies Act but are controlled either wholly or in part by the government by virtue of the shares that the government holds in the enterprise.

MANAGEMENT

The management of public corporation is under a board of directors. These directors are appointed by the government, or by the government and the relevant joint owners as the case may be. The government therefore influences decisions in the corporation either directly, e.g. on pricing and investment, or indirectly through the board of directors.

SOURCES OF CAPITAL

A public corporation may get its capital from the government through donations, loans, or express budgetary allocations, loans, or express budgetary allocations for specified purposes. Where the government owns the corporation jointly. Capital is contributed by both the government and the joint owners. In most cases, public corporations do not issue shares to the general public. If it issues shares to the general public, then it opens up its doors to public ownership.

As a body corporate, a public corporation also has powers to borrow money from financial institutions. It can also get trade credit from suppliers and buy property. In summary, a public corporation may acquire its funds just like any other legal body such as a company.

FEATURES OF PUBLIC CORPORATIONS

A public corporation has certain features that distinguish it from other business units. These features include the following:

(i) Service motive. Public corporations are usually formed to provide certain essential services to citizens' welfare.

(ii) **Formed by Act of parliament.**

Public corporations are usually formed by Act of Parliament. The act states the government Ministry under which the corporation will operate, among other details.

(iii) **Subsidized by the government.**

Public corporations are usually subsidized by the government to enable them to provide essential services and goods to the citizens at minimal fee. Where the corporation is not making

profits, to sustain

its operations, the government provides it with funds to enable the corporation to operate and accomplish mandate.

(iv) Board of directors appointed by government.

The board of directors of a public corporation is usually appointed by the government. This direct appointment enables the government to influence the policies of the corporation. However, there could

also be representatives of other major shareholders on the board to represent the interests of these shareholders if the corporation is jointly owned.

(v) Financed by the government.

A public corporation is usually financed by the government. This therefore means that even where the corporation may get its finances from other sources, the government remains its principal financed.

(vi) Legal personality.

A corporation is treated as a separate legal personality. This means that, once formed, the corporation becomes separate and distinct from the government or any other owners. The liability of the owners

is therefore restricted to the amount invested in the corporation .

(vii) Limited liability.

A public corporation is usually formed as a body corporate with separate rights and obligations from its owners. The liability of the owners is therefore restricted to the amount invested in the corporation.

ADVANTAGES OF PUBLIC CORPORATIONS

(i) Raising initial capital is easy, since the government may provide the finances.

(ii) They are suitable for activities such as public utilities where competing firms would involve waste, inefficiency.

(iii) They can accept responsibilities which is beyond the normal aims of private enterprise e.g Sewerage and Garbage collection, although these are slowly been privatized .

(iv) Since the interest of the public is the main consideration, services are provided at fair prices.

(v) They are financially sound and can obtain loans easily on large scale at fair rates of interest than privately owned business.

(v) There is democratic control through the state and local authority and profits are not a limited number of shareholders.

Disadvantages of Public corporations

- (i) Management may be weak, since the directors are mostly political appointees.
- (ii) Public corporations may not respond to the needs of consumers since some operations are monopolies.
- (iii) Public corporations normally suffer from political interference which sometimes makes it difficult for them to fulfill their objectives.
- (iv) Most managers of public corporations may not be honest, since they are not secure in their jobs as they could be sacked any time, especially with a change in government.
- (v) Some public corporations are very large, thus decision making is slow and difficult.
- (vi) Public funds may be wasted by keeping poorly managed public corporations running.

Dissolution of public corporation

It was stated earlier that public corporations are formed by a specific Act of Parliament which defines their powers, duties and general mandate.

It therefore follows that, in order to dissolve such organizations, one would have to repeal the Acts of parliament under which they were established.

Several reasons can lead to a repeal of the parliamentary Acts which established a public corporation. Some of them include:

- (i) Perpetual operation of the corporation at loss
- (ii) Outright insolvency, and
- (iii) Mismanagement which adversely affects the performance of the corporation. The effect of the repeal is to bring the activities of the corporation to an end, thereby occasioning its dissolution.

2. LOCAL AUTHORITIES

Local authorities are wholly government owned institutions which enjoy a high degree of independence (from the government) in their operations.

They consist of such institutions like city and Municipal councils.

They provide essential services, which the private people are reluctant to invest due to being unprofitable. Such services include, road maintenance, street cleaning, drainage, etc.

Local authorities are financed themselves using the money collected from their income – generating activities e.g business taxes, income taxes and market dues got from markets. The services are offered to people living within those areas.

3. PARASTATAL BODIES

A parastatal body is an organization set up by a government to perform specific functions.

Parastatal bodies carry either commercial activities like the Marketing bodies or non – commercial functions such as Universities.

Features of Parastatal Bodies

- (i) They are established by the government to perform some specific functions.
- (ii) They are managed by the government appointed officials.
- (iii) They don't have to share capital. They are financed by the government using taxes paid by the public.
- (iv) Provide services which are essential to the well being of the population, e.g health care, food supply, road construction e.t.c Examples of parastatal bodies include marketing boards.

The main difference between Parastatal bodies and Public corporations is that, Parastatal bodies do not have share capital while Public corporations do have share capital.

And the main similarity is that the management of both parastatal bodies and public corporations is appointed by the government.

Differences between Parastatal and Public corporations.

	PARASTATALS	PUBLIC CORPORATIONS
1.	Are formed by the government to perform specific functions.	1. Are formed by government to perform commercial functions.
2.	They are wholly owned by the government.	2. They are partially or wholly owned by the government.
3.	They do not have share capital	3. They are joint stock companies with share capital.
4.	Profit making is not their motive	4. They are commercial oriented, therefore profit making is one of their motive.
5.	Funds of operation depend on subsidies from the government.	5. Profit made are re – invested to increase capital
6.	Their operations depend on the government budget	6. Operations depend on their own budget

SIMILARITIES BETWEEN PARASTATALS AND PUBLIC CORPORATIONS

- (i) They are all owned wholly or partially by the government.
- (ii) They all aim at providing goods and services to public.
- (iii) They are managed by people appointed by the government.
- (iv) Their surplus is surrendered to the government.
- (v) They are performed by act of parliament which defines their powers and functions.
- (vi) They cover areas which private institutions cannot invest.

MARKETING BOARDS

These are trading organizations set up by government or the private sector to purchase agricultural products from farmers and sell them to their consumers with an intention of promoting agriculture within the state.

Marketing boards are classified according to the type of goods they handle and areas served.

1. Commodity Marketing Boards

This is a type of marketing board which specializes in specific agricultural products. It is responsible for buying and selling that particular product and takes its name from the product handled e.g Coffee Marketing Board.

2. Export marketing Boards

Such marketing boards concentrate on the marketing of various agricultural products to foreign markets.

3. Advisory Marketing Board

Such marketing Boards concentrates on carrying out research and providing advisory services to growers of various crops. They research on modern methods of farming and new crop varieties and then advise farmers accordingly.

4. Produce Marketing Boards

This is a type of marketing board which handles and sells a variety of agricultural products.

5. Statutory marketing Boards

This is formed by government under an Act of parliament (statute) They are managed by a chairman appointed by the government.

FUNCTIONS OF MARKETING BOARDS

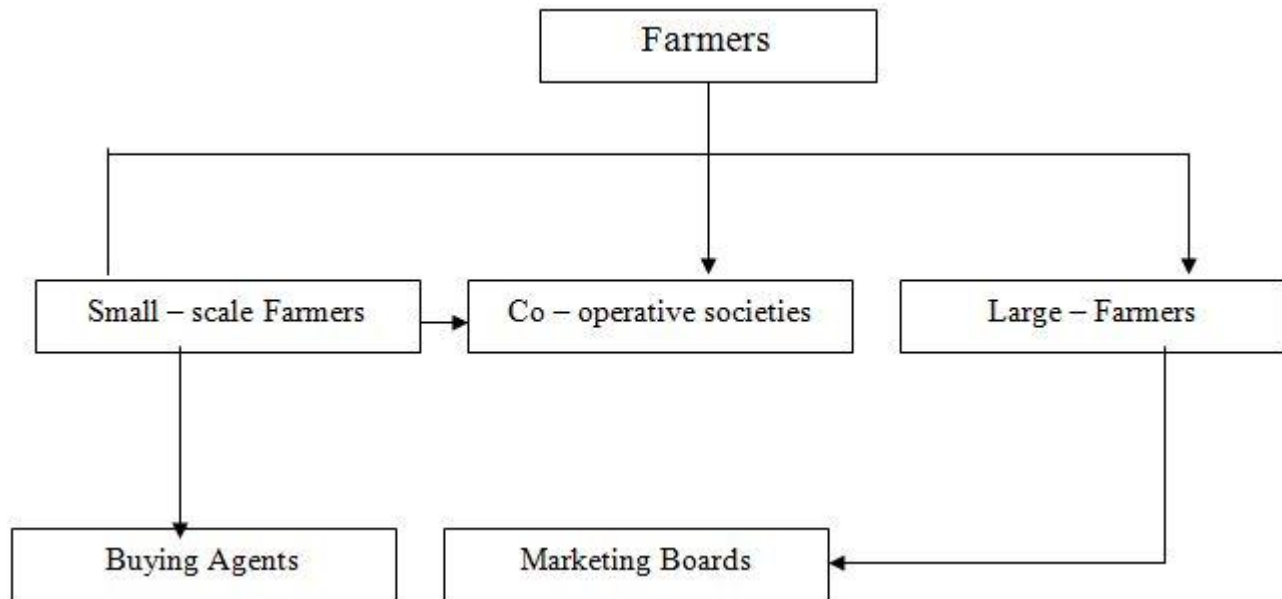
1. Buying and selling produce

They buy agricultural products from farmers in various parts of the country at reasonable prices and sell them to consumers both locally and internationally at favourable prices.

Marketing boards buy produce from farmers through the following channels:-

- (a) Co – operative societies
- (b) Direct sales
- (c) Through agents appointed by the boards .

A figure below show channels through which farmers sell their produce to the marketing boards.



2. Storage of produce.

They store agricultural products so as to protect them from damage by weather and to maintain constant supply.

3. Provision of credit facilities / assistance.

They provide credit facilities to farmers associations by giving loans at low interest rate. And also assist farmers by buying fertilizers,, pesticides, farm tools, from the board at reduced price, the board

proved packaging materials to farmers like sacks, paper bags and polythene materials depending on a particularly type of produce, They protect farmers produce against diseases and pests by regular supply.

4. Carrying out research.

Marketing boards use some of their capital to carry out marketing and agricultural research. They send out officials to the fields to offer advisory services to farmers based on the results obtained from the research.

5. Control of production.

They take suitable steps to control over – production of certain crops. They impose quotas on various producers or co – operative societies, and any crop produced in excess of the quota is rejected.

6. Stabilize prices.

Marketing boards stabilize prices thus encouraging producers to produce more. This is done by using the process of buffer stock. They buy and stock products during period of excess supply, and then release them on the market during period of scarcity.

7. Transporting products to the markets.

Marketing boards collect and transport products from rural areas to urban areas for sale.

8. Provide statistical data to government.

They provide statically data such as the price of goods,, quality and quantity of goods on the markets, etc,.

PROBLEMS OF MARKETING BOARDS

1. Political instability

This affects performance of marketing boards and farmers in any country due to reduced funding from the government.

2. Over production

Some commodities are produced in large quantities than required in the market and as a result prices of commodities go down (fluctuation of prices)

However the boards try to solve this problem by:-

- (a) Searching for new markets.
- (b) Donating the surplus to the need in the form of aid.
- (c) Exporting the surplus to other countries at lower prices.
- (d) Storing those products that are not perishable for future use when demand is high.
- (e) Destroying the surplus. Some countries burn the excess products.

3. Lack of sufficient capital

Marketing boards lack enough funds to be able to extend their services to farmers.

4. Poor transport

Most of the roads in East African countries where marketing boards operate are of murrum and in poor state. They are impassable during the rainy periods.

5. Poor quantity produce

Farmers produce mainly poor quality goods which cannot fetch high prices on the world market. Some farmers mix poor quality products with good ones and this lowers the general demand for such products.

6. Lack of storage facilities

There are few warehouses for storing excess products until they are required.

There are not enough cold stores for perishable goods. As a result, most products end up getting spoilt.

7. Illiteracy of farmers

Some of the farmers do not know how to read and write. Thus it is difficult to educate and advise them on better production techniques to use.

8. Poor management of funds and lack of skills.

Managers of marketing boards are often political appointments. They may lack the necessary management and financial skills to administer the funds set aside by the government to boost agriculture.

9. Competition from business persons

Some business people have ready cash to pay for the produce. This encourages farmers to sell to business people instead of the board which takes longer to pay.

Because of this, boards find themselves with insufficient quantities of produce to handle.

WHY GOVERNMENT PARTICIPATES IN THE OWNERSHIP OF BUSINESS ENTERPRISES.

(causes /Reasons of Public undertaking)

1. High initial cost.

Construction of roads, railways, schools and hospitals to improve the countries infrastructure requires vast capital expenditure and therefore the government has to invest.

2. **Provision of essential commodities and services.** Water and sewerage corporation and waster collection plants need heavy investment and are less attractive investments for private sector, yet essential.
3. **Prevention of monopolies.**

Governments participate in commerce to deter the emergency of monopolies who exploit the government.

4. **Regional balancing.**

The government invests in infrastructural facilities with the aim of attaining fair distribution of development projects throughout the country.

5. **Ensuring national security.**

Production and distribution of certain goods such as money and ammunition is done specifically by the government.

6. **Promotion of political ideologies .**

Political consideration may influence the government to own business enterprise.

7. **Attract foreign capital.**

Government enterprises attract more foreign capital and technology than the private sector. Thus government participates and runs business with an aim of getting foreign capital which if acquired, facilitates development in the country.

ADVANTAGES OF STATE CORPORATIONS

(1) Provision essential facilities.

They are suitable for unprofitable enterprises in which the private sectors may not want to invest e.g dam construction, road construction, education , garbage collection, etc.

(2) Large initial capital

Some business enterprises require large capital which cannot be raised by private sector enterprise e.g provision of educational materials, electricity, etc.

(3) Risk ventures

Some sectors of the country are very risk and too confidential for the private sector to get involved e.g production of weapons, police and maintenance

(4) Relatively cheap

They provide goods and services to the public at lower prices than the private sector.

(5) Elimination of duplication of services

They help in elimination of duplication of services, which reduces wastage and inefficiency

(6) Source of government revenue

They create revenue to the government through their aim is not to make profits. The money obtained is used to run development projects.

DISADVANTAGES OF STATE CORPORATIONS

Lack of competition.

Because there is a little or no competition .this may lead to the production of goods and service, which are of poor quality. This reduces standard of living within the country.

(ii) Un economical.

The in profit ability and cost of production are passed on the public in the form of higher taxes .the government tries hard to get fund to finance unprofitable business.

(iii) No personal interest.

People who work in state corporations may have no interest in the business.

This result in the provision of poor quality goods and service.

(iv) Bureaucratic tendencies there is too much red tape in state corporations .This leads to delay in the supply of certain goods and services for decision to be made , it has to go through many channels .

(v) Monopoly some state corporations have there monopoly of supply for providing certain service e.g National water and sewerage corporations .This corporations has power to set price at a higher rate because there are no competitors

(vi) Lack of capital . Some of the businesses require large capital, which cannot be raised by the government. This result in inefficiency in the production of goods and service

(vii) Un profitability .Some business under takings are unprofitable and costly to run. The government increases price and taxes to the consumers' price and taxes to the consumers on order to be able to manage them.

(viii) Limited skills the management and administration of the state corporations is often influenced by sectarianism which is based either on tribal or political grounds and the workers many lack the skills needed. In many cases the skills of the employees are not considered which promotes inefficiency in the business.

PRIVATIZATION

Meaning

It is a transfer of government ownership of state enterprises from the government to the private sector.

REASONS/ADVANTAGES OF PRIVATIZATION

1. To increase government revenue.

The government earns income by taxing private enterprises. These taxes enable the government to get enough money to fund other development projects

This enhances economic growth and development.

2. To earn foreign exchange.

The privatized enterprises bring in foreign currency, especially if they are foreign owned.

This improves the balance of payments position of the country.

3. To reduce bureaucratic delays

In private enterprises, decision making is much quicker than in public enterprises because of bureaucratic tendencies in public enterprises.

4. To private quality, goods and service.

Privatization brings about competition among producers and providers of goods and services. Enterprises need to provide better quality products in order to capture the market. Consumers benefit from privatization.

5. To promote efficiency

Private enterprises are often more efficiency than state enterprises.

The owners of private enterprises carefully supervise them to ensure efficiency and reduce the wastage of resources.

6. To reduce excessive government expenditure.

Most of the state – owned enterprises do not make profit the government spends a lot of money on them . To avoid such expenditure, the government sells off such enterprises.

7. To create employment opportunities

Many jobs are created in the private sector because the owners are interested in the companies and are keen to bring in new ideas, enabling the companies to expand.

DISADVANTAGES OF PRIVATIZATION

1. Exploitation of the public

Private investors tend to exploit the public by own over charging and provision of poor quality goods and services, especially if monopoly exist.

2. Limitation for expansion

Private firm may not have adequate bargaining power for fund international financial institutions like IMF and the World Bank, thus expansion may be difficult.

3. Profit caparatriation.

There are is capital out flow from the country that privatized the enterprises if the private sector is dominated n by the foreigners.

This retard the level of economic growth and development.

4. Limited supply of essential but unprofitable services.

The private sector is reluctant to supply the essential but unprofitable services like street cleaning garbage collection and road maintenance.

5. Continuity of business.

The existence of private enterprises largely depends on the life of the owner. If he /she dies the business also dies.

6. Difficult to control the production of dangerous goods .

It is dangerous for the private sector to deal in the production of dangerous commodities, eg making firearms.

BUSINESS CAPITAL

- Are those value of assets owned by the business. Or
- Are the money or properties used to start a business.Or
- Refers to the future of production which refers to the wealth used to produce other wealth.

FEATURES OF THE CAPITAL

What are they?

- Capital may be depreciated.
- It is made by human being.
- It results from accumulation of assets.
- It is less subjected to the law of diminishing return.

FUNCTIONS OF CAPITAL

- It encourages specialization which used to increase output.
- It leads to creation of employment opportunities.
- It enables full utilization of resources.
- It leads to increase production to the economy.
- It enables diversification of economy.

SOURCES OF CAPITAL

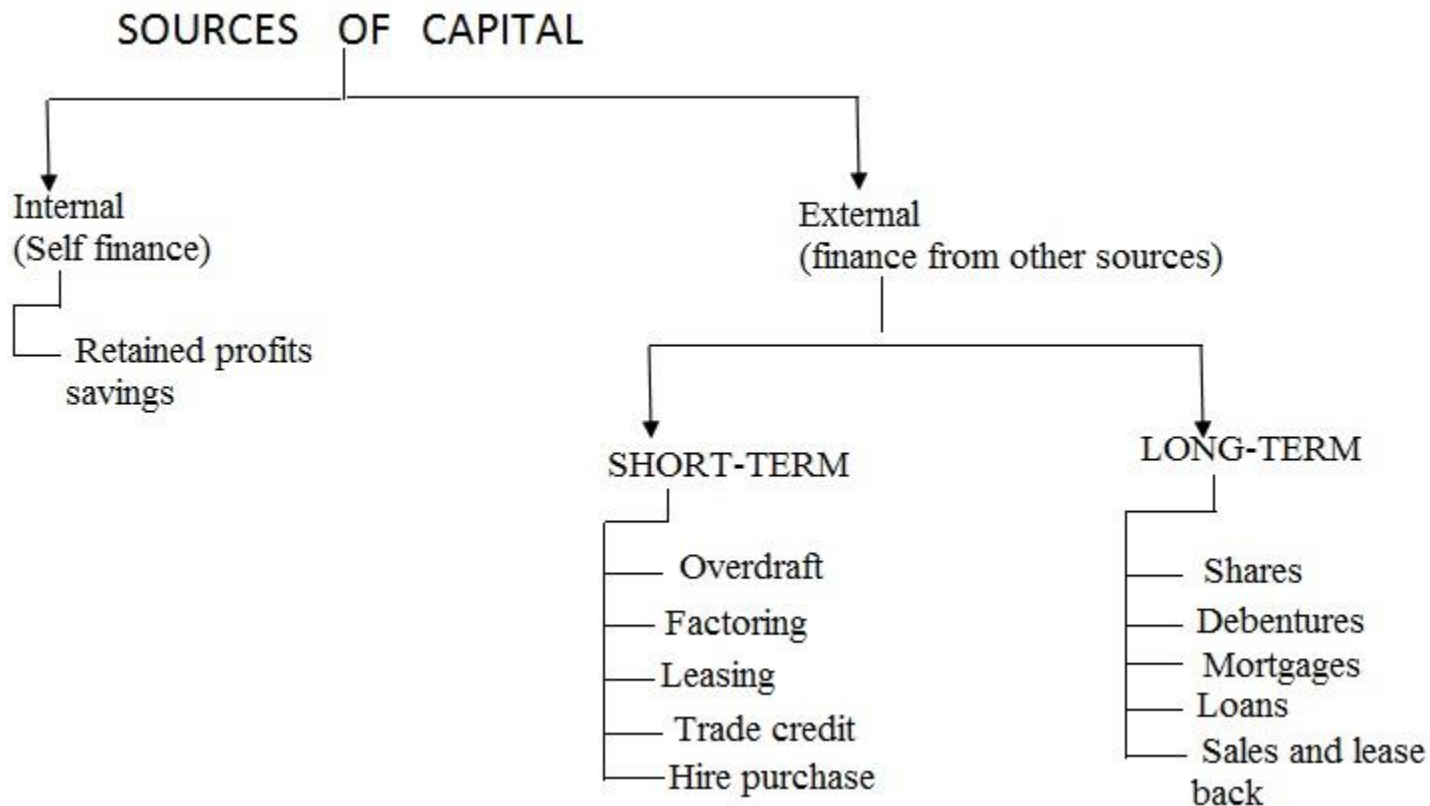
Before organization can start to generate any money, they need money to finance all their activities. Organization can obtain finance from a number of sources which are given below:

1. Internal sources (self-financing). This is mainly from savings and retained profits.
2. External sources (finance from other sources).

(a) Short-term sources. These include overdrafts, factoring, leasing, trade credit and installment selling.

(b) Long-term sources. These includes shares debentures, mortgages (sale and lease back) and loans.

The figure below shows the sources of capital.



Internal sources of capital.

These are sources of capital that come from within the organization itself and the owner. This is called self-financing. They include savings and retained profits.

1. **Savings:** This refers to the part of a person's income that is retained for use at a later time. It involves sacrificing current spending in the hope of benefiting in the future savings are one of the most common sources of capital for new business; many new businesses are started using inherited or saved money.
2. **Retained profits:** Organizations receive money from selling goods and or services. Any money that remains after paying the costs and expenses incurred when selling those goods and/ or services is the profit. Profit is the reward to the owner of the businesses for risking his/her money and investing his/her energy and time in that business. Some business owner retain their profit and reinvest it in the purchase of more assets so that the business can grow in size and provide quality goods and services.

External sources.

These are sources of capital that come from outside business. They can be grouped into one of the two categories. Long-term sources (needed for five or more years) and short-term sources of capital chosen will depend on the amount of money needed and how long it may take the organization to pay it back.

Long term sources of capital.

(1) Loans

A loan is an amount of money lent to someone or to a company. A business may raise capital through borrowing from financial institutions, individual money lenders and friends.

Advantages of loans.

- (i)The company knows the terms of loans (cost and repayment terms) that it is committed.
- (ii)A loan provides supplementary funds to facilitate the smooth running of the business.
- (iii)The external monitoring and added interest in the business operations enforce hard work and efficiency hence promoting the growth of the business.

Disadvantages of loans.

- (i)Loans that are repaid over long period can cost the business a lot of interest payments, thereby increasing expenditure and reducing profit.
- (ii)The borrower may be subject to external monitoring and control over the business.
- (iii)It is expensive for the borrower as he/she is required to pay interest and other charges (e.g Insurance, commitment fees) on the money borrowed.
- (iv)The payment terms may be too light and cause the borrower to have cash flow problems.

Shares

Organization wishing to grow may choose to become private or public limited companies. Public limited companies may choose to float their shares on the stock exchange.

Companies/Organization that has already floated may choose to issue new shares to raise more capital. Selling shares allows people and companies to acquire very large amounts of finance. Money received from selling shares can be used to buy fixed assets, to promote sales and development of new products.

Debentures

A debenture is a certificate given by a business corporation and other business organizations as a reception of money lent to a fixed rate of interest until the principal is paid when the business is short of funds, it sells debentures to the public to raise the money needed e.g. to buy expensive assets such as buildings and machinery.

Mortgages (sale and lease back)

This is an arrangement used by organizations that owns high value property, equipment or machinery. They generate cash for the organization by selling those assets to a buyer for an agreed extended period. This enables the organization to release money tied up in property (e.g.

buildings, machinery) and to reinvest the money in more assets so as to improve the business performance.

Advantages of a mortgage.

- (i) It allows a company to raise money in a way that avoids selling shares and therefore avoids having to share the profits and risks of losing control over how the company is run.
- (ii) Mortgage repayment installments are relatively small compared to the size of the finance obtained because the loan is paid for over a long period. The repayments therefore do not have a negative influence on the amount of cash flowing out of the company.
- (iii) As long as companies keep up regular repayments, at the end of the loan period, they own the assets.

Disadvantages of a mortgage.

- (i) The business cannot sell the mortgaged property unless the outstanding amount on the mortgage is settled. If the company fails to repay the amount agreed, then the lender forces the company to sell the secured property in order to pay the outstanding debt or may even take over the ownership of the property.
- (ii) A company may be locked into a long-term mortgage, during which the value of the property may depreciate (lose value).

Short-term sources of capital.

Bank overdraft.

Most companies have a current bank account. This account provides an overdraft facility, which allows the company to draw out more money than it actually has in the account. The extra amount withdrawn is known as an overdraft. This is a short-term loan.

The company may only be able to withdraw up to an agreed limit called an overdraft limit on providing security. Whenever the borrower has surplus funds, he may pay it into his current account to reduce the overdraft. Interest is charged on the overdrawn amount on a drawn basis. Overdrafts are very useful to companies that may experience low sales (and therefore low income) at certain times of the year.

Advantages of overdraft.

Money is borrowed only when the company needs it.

Disadvantages of overdraft.

- (i) Usually overdrafts have higher rates of interest compared to ordinary short-term loans because of their convenience.
- (ii) An overdraft is usually repayable on demand. If the bank feels that a company is having trading problems, it may request that the whole overdraft amount be repaid. And if they fail, the court will declare the company bankrupt and their assets sold to repay their creditors.
- (iii) Borrowers are charged a fee by a bank for using an overdraft facility.

Leasing

When organizations need expensive machinery equipment or vehicles, they may choose either to

purchase them or to lease them for an agreed period. For example an organization may lease a photocopier for three years. Leasing is similar to renting as the property belongs to the leasing company.

Advantages of leasing.

- (i) Companies do not have to take out expensive long-term loans or use their retained profits. This money can be invested in research and development or marketing to improve the success of the business.
- (ii) It is easy to organize leases. The amount of paperwork is far less than when applying for a loan.
- (iii) Companies are enabled to access more expensive and improved equipment than they could afford to buy through loans.
- (iv) Leased equipment may be maintained and repaired by leasing company, saving the company thousands of dollars/shillings on maintenance costs.
- (v) Leasing agreement may allow the companies to upgrade to newer equipment for a small additional cost.
- (vi) Repayment costs are usually fixed for the entire term of the lease.
- (vii) Companies avoid being left with out of date machinery and equipment.

Disadvantages of leasing.

- (i) The company will usually pay more over the term of the leasing agreement than the actual cost of the equipment.
- (ii) The company never owns the item so they cannot sell it and the organization may have to pay lease payments even if it has stopped using the equipment before the expiry or the lease period.
- (iii) Companies may depend on the agreement and repair costs.

Hire purchases

This is a source of capital for an organization that wishes to purchase equipment. Organizations make regular payments for an item over a period. Until the last payment is made the equipment remains the property of the hire purchase company. After the final payment the ownership passes to the organization that hired the equipment. This system has advantages and disadvantages.

Trade credit.

This is an arrangement between organizations and their suppliers to buy goods or services on credit. This means that they can receive goods and services but pay for them within an agreed period e.g. six months. This gives organizations time to sell the goods to their customers and receive payments for them.

Choosing the right source of capital companies/organizations need to consider carefully which source of capital will be most suitable for their needs. For instance the purchase of new vehicle would not be financed by using overdraft because overdrafts incur very high interest rates compared to obtaining a loan or purchasing the car on hire purchase.

The following points should be considered when selecting source of capital.

- (i) The types of business, its stage of development and the availability of finance. The availability of certain types of finance may be limited, depending on what type of ownership an

organization has it difficult to obtain a loan from banks unless it has property on which to secure the loan.

(ii) The intended use of the capital. If a company needs to purchase high value equipment or property, it would normally seek long-term capital such as loans or mortgage. If there is a lack of working capital, then short-term loans are ideal. E.g. overdraft and trade credit.

(iii) The risk associated with the source of capital. When companies take out loans, mortgage or debentures they run the risk of losing the property that has been secured against them. The loan companies need to be certain that if a company is unable to make its repayment, they will be able to sell the company property to get their money back.

Companies may choose share issues as a more secure source of finance as the company does not have to pay dividends to shareholders if it makes a loss.

(iv) The costs involved. Some sources of capital are expensive. For example, if a company buys a vehicle on hire purchase the total amount repair is much more than if they had secured a bank loan.

FORMS OF CAPITAL

Is the money or physical items invested in the business by the owners or shareholders. Capital is also regarded as the net worth of the business to the owner.

i. Capital owned

This is an amount of money invested in the business by the owner. It may also include profit made by the owner. It is obtained by the following formula;

$$\text{Total assets} - \text{Total liabilities} = \text{capital owned}$$

NB; sometimes it is known as capital invested

ii. Working capital/Net current assets

This is the excess of current assets over current liabilities. It is obtained by taking ;

$$\text{Working capital} = \text{total current assets} - \text{total current liabilities}$$

NB; working capital also can be determined by ratio as follows;

$$\text{W.C Ratio} = \frac{\text{TOTAL CURRENT ASSET}}{\text{TOTAL CURRENT LIABILITIES}}$$

$$\text{e.g } A/B = A:B$$

iii. Borrowed capital.

Is a capital that is obtained from outside sources particularly from financial institutions normally it takes the form of long term liabilities. it is obtained taking

$B.\text{capital} = \text{Total long term liabilities.}$

NB; Sometimes it is known as loan capital.

iv.capital employed.

These are resources that have been invested in a business . It is obtained by

$\text{Capital employed} = T.\text{fixed assets} + \text{Working capital}$

v.liquid capital.

Is a type of capital which should be in the form of cash or items which easily converted into cash(money) like debtors, stocks ,prepaid expenses etc. It is obtained by the following;

$\text{Liquid capital} = \text{Total current Assets} - \text{stocks}$

NB; Liquid capital also can be determined interns of ratio as follows;

$$\text{Liquid capital ratio} = \frac{\text{Total Current Asset} - \text{Stock}}{\text{Total Current liabilities}}$$

NOTE; Sometimes it is known as Acid test ratio'

THE CONCEPT OF PROFIT

Is the benefit which arises from the use of capital by someone or a firm when conducting business activities particularly in a certain period of time. Normally it is calculated by taking revenue or selling price the deduct by all expenses incurred or cost price.

OR

Profit

This refers to the surplus of selling price over cost price. It is the money made by selling something for more than its costs to buy or make it. The profit of a business is calculated in two stages.

(a)Gross profit. This is the surplus of selling price over cost price. It is calculated by subtracting the cost of sales from sales value.For example, if a business dealing in computers bought one at shs. 500,000 and sold it at shs. 1,000,000, the gross profit is shs. 500,000.(i.e 1,000,000 – 500,000 = 500,000).

(b) **Net profit.** This calculated by subtracting all business expenses from the gross profit.

THE CONCEPT OF MARGIN AND MARKUP.

Margin. This refers to the gross profit expressed as a percentage of selling price or turnover.

$$\text{Margin} = \frac{\text{Gross profit}}{\text{Selling price}} \times 100$$

For example, suppose Alex bought goods worth shs. 1,000,000 and sold them for a total of shs. 1,300,000. His profit margin equals.

$$\frac{300,000}{1,300,000} \times 100 = 23\%$$

Markup. It is gross profit expressed as a percentage of cost price.

$$\text{Markup} = \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$$

For example, if Alex bought goods worth shs. 1,000,000 and sold them at 1,300,000, his /her mark up equals

$$\frac{1,300,000}{1,000,000} \times 100 = 30\%$$

Gross loss.

This is the excess of cost of sales over net sales. It happens when the cost of sales is bigger than the value of the sales.

Net loss

This is the excess of expenses over gross profit. This is incurred by the business when the administration expenses are more than the gross profit.

Carriage inwards.

These refer to purchasing expenses e.g. the cost of transporting the purchased goods from the supplier to the business. This increases the expenses of purchases.

Carriage outwards.

This refers to a transport charge /expense incurred when transporting the sold goods to the buyer. It is a business expense.

Purchases.

Goods bought with an intention of re-selling them at a profit.

Net purchases.

In a trading period, some goods already purchased and recorded in the books of the business may returned to the suppliers for various reasons, e.g. they may be damaged or of poor quality. Goods that are retained in the business for resale are termed as net purchased.

Total purchases – Return outwards = Net purchases.

Return outwards /Purchases returns. These are purchases that are turned to the suppliers.

Return inwards/sales return. These are goods which were sold but have been returned to the business by the customer. The goods may be poor quantity or may be damaged.

CONCEPT OF STOCK TURN OVER

Is the rate which shows the number of stocks sold (turn over) during a particular period ,generally a year. It is calculated by;

Cost of sales

Average stocks

Example

ABC LTD. Produce the following information as at 31st .12.2010

Sales.....12'500/=

Gross profit3'000/=

Stocks(1.1.2010.).....2'000/=

(30th.June.)600/=

(30th.December).....800/=

Required; calculate the rate of stock turn over

Cost of sales = sales - gross profit

=12'000 – 3000

$$=9000$$

$$\text{Average stocks} = 2000 + 600 + 800 / 3$$

$$=1133$$

$$=90000 / 1133 = 7.94$$

$$=8\text{times}$$

WAYS OF IMPROVING TURNOVER AND PROFITS.

Ways in which turnover can be increased include the following;

- i. Increase the use of advertising and sales promotions to increase sales as well as profits.
- ii. Reducing prices of goods and services to increase demand for goods and services.
- iii. Improving credit terms. This may encourage customers to buy possibly in bulk thus raising sales turnover and possibly profits.
- iv. Reducing costs of supplies and expenses. This may raise gross profit as well as net profit because the sales prices will be maintained at their original level.
- v. Offering a wider range of products or services. This may attract more customers and thus increasing sales.
- vi. Expanding business operations. Companies may choose to open additional branch or retail outlet to serve more customers or increase production of a particular product.
- vii. Improvement in the methods of salesmanship.

THE CONCEPT OF COSTS

This refers to the amount of money paid by the firm in order to secure output.

TYPES OF COASTS

(a)Fixed costs.

These are costs which are incurred by the business but whose value does not change with output, they are unavoidable. They include office rent, insurance premiums, salaries of top management etc.

(b)Variable costs.

These are costs that change in relation to output e.g. raw materials, piece rate wages etc.

(c)Implicit costs.

These are costs which are not planned for, i.e. costs which are not recognized when calculating profits of the business, e.g. family labour.

(d) Explicit costs,

These are planned for costs and are included in the budget of the business. E.g. Wages, Rent, Transport, Advertising.

(e) Average costs.

This is the cost which incurred for producing one unit of output. Sometimes is called cost per unit.

$$AC = \frac{TC}{Q}$$

Where, AC = Average cost

TC = Total cost.

Q = Quantity/Output.

(f) Marginal cost.

This is the additional in total cost incurred for producing extra unit of output.

$$MC = \frac{\Delta TC}{\Delta Q}$$

Where, MC = Marginal cost

= Change in total cost

= Change in Quantity/ output.

(g) Total cost.

This is the total amount of money used in production process. The total cost comprise fixed costs and variable costs.

(h) Cost of sales/Cost of goods sold. This refers to the purchase price of the goods that have already been sold. It represents the cost of items disposed of or sold. It help in the calculation of the gross profit.

Turnover

This refers to net sales of the business in a given trading period.

BREAK EVEN ANALYSIS

Break even analysis is a point or situation where a firm generates neither profit nor loss.

In such case a firm is only capable to cover fixed and variable cost. Break even analysis based on the fact that

$$\text{Selling price} = \text{variable cost} + \text{fixed cost}$$

TERMS USED IN DETERMINING BREAK EVEN;

1. Contribution margin

Is the difference between selling price and variable cost.

$$CM = S.P - V.C$$

2. Break even point (unit) BEP (BEP(U))

It is expressed as total fixed cost divide by contribution margin

$$BEP(u) = TFC/CM$$

$$iii.B.E.P(V) = TFC/C.M \times S.P(U)$$

3. **Profit volume ratio(PVR)**; this is the ratio measures in how much sales the firm incur profit

$$PVR = \frac{\text{Profit}}{\text{Sales}}$$

Or

$$PVR = \frac{FC + Profit}{Sales} \times 100$$

Or

$$PVR = \frac{CM(V)}{Sales(u)} \times 100$$

BREAK EVEN CHART

This is the diagram which shows sales revenue plotted against total cost. This occurs where plotted against total cost. This occurs where the sales line intersect the total costline.

Margin of safety

This is the distance between break even point and the expected level of activity. It depicts amount by which actual activity can fall short of expected activity before a loss is incurred.

Or

Is a measure of risk to the left of break even point from the profit zone

Example;

A certain organization provides to you a certain information concerning to production of toys;

Fixed cost.....10'000/=

Variable cost.....4/=per toy

Selling price.....6.50/= per toy

Production batches were 1000 toys to 9000 toys.

Required ;(a)calculate BEP in terms of number of toys and sales volume

(b)Draw break even chart

Solution;

(a) B.E.P in terms of number of toys = Total Fixed cost/C contribution margin

Whereby; contribution margin = selling price – variable cost

$$= 6.50 - 4$$

$$=2.5$$

$$\text{B.E.P} = 10'000/2.50 = 4000$$

B.E.P in terms of number of toys = 4000 toys

OTHER TERMS AND FORMULAE USED IN BUSINESS CALCULATIONS

- **Solvency;**

Is a situation that happens when business has more assets than liabilities, which is a capable to meet its debts from all sources.

- **Insolvency;**

Is a situation that happens when a business has more liabilities than assets, which is not capable to meet its debts from all source

- **Bankrupt;**

This happen when a business cease (stop) to function , sell its assets and distribute the proceeds among creditors in the ratio of their debts

- **Over-trading;**

It happens when the business has no working capital.

Assets, these are items of value that belong to the business at a given period of time. There are two forms of assets; fixed assets and Current assets.

Fixed assets; are items of valuable that are acquired for the use in business. E.g. land, buildings, furniture and motor vehicles, machinery and equipment of all types such as tools, computers and photocopiers. They are durable in nature.

Current assets; are items of value in the business that can be turned into cash within a short period of time; they don't last long in the business. They are also referred to as liquid assets. They include stock of goods, debtors, and cash in hand and pre paid expenses such as rent, water and electricity.

-Liabilities

Liabilities refer to anything a trader or business owes to someone. Liabilities are business obligations that have to be settled. The person/party whom a debt is owed is called a creditor. For example when a person purchased goods from XYZ coy ltd on credit, the XYZ coy ltd is a creditor and that person who bought the vehicle is a debtor to XYZ coy ltd.

There are two types of liabilities; Long-term liabilities and current or short-term liabilities.

-Long term liabilities; Are business debts which are payable within a period long than one year.

-Current or short-term liabilities; Are debts which are payable within a period of one year.

-Sales. The total value of goods sold during the trading period. This may also be known as Revenue.

-Stock. These are the unsold items in the business at a particular time. Stock comprises two categories opening stock and closed stock.

Opening stock. Is the unsold goods in business at the beginning of a new trading period.

Closing stock. Refers to unsold goods that remain at the end of the trading period.

-Expenses/ Costs. These are costs incurred in the process of running the business. These costs make the business to run efficiently and be successful. Costs include salaries and wages, postage and telephone, transport, taxes, advertising, rent, repairs depreciation and others.

THE ROLE OF GOVERNMENT IN TRADE

Government:

Is a group of people who officially rule a country like president, ministers and civil servants.

Function of Government

The government perform the following function.

- 1. Protective functions.** The government is responsible to maintain peace and security in the country and to defend the country against external aggression. For this purpose the government maintain police and the armed forces.
- 2. Administrative functions.** The government is responsible for the administration of the country. Various administrative departments are established by government for this purpose.
- 3. Social functions.** The government provides social services to public like education, health, housing, transport and communication etc. These services are vital for the welfare of the society.
- 4. Development functions.** The development of different sections of the economy is not possible without the state help. The government should develop irrigation, transportation and communications, industrial and agricultural systems of the country for the rapid increase in the rate of economic growth.
- 5. Makes policies and laws** and implement them so as to promote development of country.

6. **Trade function.**Facilitates trade within and outside the country.

Business.

Business applies to any activity carried with an intension of making **PROFIT** while standing a risk of **LOSS**. Business can be in form of trading, farming, transportation, communication, insurance etc.

THE ROLE OF BUSINESS

In economic theory business play two roles:

-They enter the market place as **PRODUCERS** of goods and services bought by consumers. They buy factor inputs from households in order to produce those goods and services. They are using various economic resources efficiently in order to attain high profits at a less cost.

GOVERNMENT INVOLVEMENT IN COMMERCE

The government can involve in business activities as follows:

1. Carrying out trading activities directly.

For this purpose, public corporations, parastatals, marketing bodies and local authorities are set up. These government bodies may be responsible for the production of some specific items or provision of specific services.

2. Controlling the activities of the private sector.

This is done by ensuring the production of better quality goods and protect the interests of the consumers. The government can control the activities of the private sector in various ways, such as **consumer protection**.

Consumer protection. Is the policy taken up by the government to protect consumers from being exploited.

3. The government buys shares in private companies.

CONSUMER PROTECTION

Meaning:

This is the policy taken up by law to protect consumers from being exploited by the business world. A consumer needs protection because he or she has to get support against unfair practice from seller includes

- a) Being charged higher prices
- b) Misleading advertisements

- c) Selling of defective / expired goods
- d) False description
- e) Wrong quotation of weights and measures
- f) Ignorance of their basic rights
- g) Selling unhygienic goods (food stuffs)

The need for consumer protection (Reason for consumer protection)

1. **To avoid overcharging.** Many suppliers exaggerate the expenses they incur when buying goods from manufacturers. These traders give excuse such as high transport charges, taxation (e.g. VAT) and rental charges so that they can charge consumers very high prices.

2. **To ensure correct weights and measures are used.** Some traders use the wrong measurements and weights when selling goods to customers thus cheating them. This is very common with goods such as sugar, salt, beans, maize and wheat flour, rice which traders sell in small, weighed units.

3. **To guarantee safety of foodstuffs and drinks.** Some traders sell foodstuffs and drinks from unhygienic places and other traders sell foodstuffs and drinks that are out of date, half-cooked or stale. To protect consumers, therefore the Ministry of Health sets up standards which must be met by traders engaged in the sale of foodstuffs and drinks.

4. **Eliminating misleading advertisements.** Many business owners use persuasive, attractive and misleading advertisements to persuade customers to buy goods from them. Today it is common to find such advertisements “**IT WASHES WHITER THAN WHITE**”. This is not true as there is nothing whiter than white either something is white or not white but not whiter. Also some dealers of used vehicles display misleading adverts on television showing such vehicles jumping over buildings. This is very misleading as there is no vehicles which can go over building unless it is an aeroplane. Many cosmetics advertisements have misleading phrases, pictures and slogans.

5. **To avoid sale of out of date (expired) drugs.** In rural areas where drugs are scarce, drug dealers sell out of dated drugs to unsuspecting illiterate consumers. Also some people pretend to be doctors and prescribe wrong doses of drugs to consumers.

6. **Consumer ignorance of their rights.** Many customers do not know their rights. Therefore it is the duty of the government to protect them.

BASIC CONSUMERS RIGHTS

The basic consumer rights includes the following:

i. **Right to safety.** This means that right to be protected against the marketing of goods and services which are hazardous to life and property. The goods and services available for sale should not only meet their immediate needs but also fulfilling long term interests.

ii. **Right to be informed.** It means to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices.

iii. **Right to choose.** This means right to be assured, wherever possible of access to variety of goods and services at a competitive price.

iv. **Right to seek redressing.** Means to seek redressing against unfair trade or unscrupulous exploitation of customers. It also include right to fair settlement of genuine grievances.

v. **Right to be heard.** The right to be represented in various forums formed to be consider consumers welfare.

vi. **The right to satisfaction of basic needs.** It means to have access to basic essential goods and services, adequate food, clothing, shelter, health care, education and sanitation.

vii. **The right to health environment.** It means to live and work in environment which is not threatening to the well being of the present and future generation.

METHODS OF PROTECTING CONSUMERS

There are three major ways of protecting consumers:

i. Government initiated methods.

ii. Consumers initiated methods.

iii. Business initiated methods.

(i) Government initiated methods

The government protect the consumers in the following ways as the measures adopted by the government to protect consumers. In Tanzania the government has established some institutions to protect the rights of consumers including.

1. Weights and measures Department. This requires businessmen to use recommended weights and measurements when selling goods to consumers. It requires manufactures to indicate the correct weight on the goods or on the packing material. This department is under Ministry of commerce and industries who officials travel around the country to check and confirm the efficiency of the weighing scale.

2. Setting up bureaus of standards. These set up standards for the quality of various products made or imported into the country. A standards bureau has a standardization mark that it puts on any goods

to be tested and approved. An example of such a bureau is the **Tanzania Bureau Standards (TBS)**. **FUNCTIONS OF TANZANIA BUREAU OF STANDARDS (TBS)** Tanzania Bureau Standards is a government agency whose function is

- i. To ensure that high quality of goods produced by manufacturers by taking random samples.
- ii. To take action against manufacturers who produce inferior goods.
- iii. To ensure the quality standards of the product are maintained, produce locally or imported from other countries.
- iv. Preparation of the standards relating to products, measurements, materials, quantity, weight and moisture content etc.
- v. Certification of industrial products.
- vi. Quality inspection of imports at legal ports of entry.
- vii. Improvements of measurement accuracies and dissemination of information relating to standards.
- viii. To keep close liaison with and render efficient service to industry, trade and commerce in direct parts of the country.

3. Price control Act

This Act is meant to safeguard consumers from being overcharged. The government fixes the price of certain goods especially essential commodities, so that the traders do not sell above the fixed price. This is very common with essential commodities like sugar, salt, soap etc. These prices are published by the Minister of finance when presenting the National budget every year.

4. Business premises Rent Tribunal

This tribunal ensures that reasonable rents are charged by the landlords from their tenants.

LAWS USED BY GOVERNMENT TO PROTECT CONSUMERS (Legal measures)

The various laws used by the government to protect consumers include the following

1. Sale of goods Act

This affords protection by setting down conditions and warranties expressly by the seller to the buyer. The Act provides for five conditions and two warranties in the protection or vulnerable position of the buyer.

Conditions

- i. The seller has the legal right to sell the goods.
- ii. The goods sold by descriptions do in fact correspond with the description.
- iii. That the goods are reasonably for the purpose intended by and made known to the buyer.
- iv. That the goods are of merchantable quality.
- v. That when goods are sold by sample, the actual goods sold are of the same quality as the sample.

Warranties.

- i. That the goods are free from any charge in favor of third person.
- ii. That the buyer shall have and enjoy quite possession of goods purchased.

2. Food and Drugs Act

This provides protection of the public by prohibiting adulteration of foods, medicines etc. They require manufacturers to list the ingredients used in the process of making them.

3. Weights and Measures Act

This provides protection to consumers by prescribing weights and measures for the use in business transaction. Its require testing and sampling of all weight and measures used by business concern and regular inspection to insure that all scales confirm to the established standard. This makes it a criminal offence if the weight or any other form of measurement is wrong.

4. Hire purchase Act

This lays down a prescribed form for the scale of goods by hire purchase or credit sale. This act makes it necessary to detail the cash price, deposit, servicecharges, hire purchases or credit sale value, repayments terms and time period covered. In addition, right and duties of the buyer are set out in written agreement. Also the legal remedies are available as set out in the act.

5. Resale price Act

The resale price and maintenance act prohibited manufacturers and other suppliers imposing conditions for the maintenance of minimum prices of resale. The act also prohibits the enforcement of such prices by the withholding of supplies from those dealers who fail to observe rules.

6. Trade description Act

This requires goods sold to the public to bear correct descriptions and trademarks. It's also protect customers from misleading advertisement, under this Act, it is a criminal offence, punishable by fine or imprisonment to make a false or exaggerated claim to a goods or services.

7. Statutory merchandize marks Act

This is designed to ensure that the sale of goods under trademarks is genuine and hence to protect consumers where false or forged trademarks or descriptions of goods of a misleading nature is used.

(ii) Consumers Initiated methods

These are methods which are adopted by consumers to protect themselves through forming consumers associations.

Consumers Associations

Is an association formed by consumers to safeguard themselves. The Tanzania Tenants Association is a good example of consumers association in Tanzania.

Consumers association normally deal in:

- Protesting higher price charged by businessmen.
- Informing the government on their inferior quality products sold to them by manufacturers.
- Taking legal action against businessmen who abuse the consumers.

Consumers association can be explained as committees setup by consumers themselves to safeguard their interests. This may be setup with help of local councils. Any consumer is free to become a member of such an association payment of small fee. The association carries out investigation into product regarding quality, prices, design and gives the results to members through published booklets. Consumers are then able to find out where the best bargains are.

(iii) Business Initiated Methods

These are methods which are adopted by businessmen to protect themselves through forming **Business Associations**.

Business Associations

These are formed by businessmen and are concerned with bringing up sufficient and satisfactory standards of goods and services to customers. A system known as Resale (Retail) Price Maintenance (RPM) was introduced by association, which attempts to control the price at which their products are sold to consumers, such that wherever the goods are found, the price is the same or proximate to the required rate. In East African countries the system works well with beer, soda, cigarettes, petroleum products and transport rates.

HOW CAN CONSUMER PROTECT HIMSELF OR HERSELF?

Consumer can protect himself or herself before and when buying by doing the following:

- i. A consumer can gather enough information about the price of product before doing the actual purchase. This can be by moving around several shops and reading various bulletins which provides such information.

ii. A consumer should claim for necessary documents such as receipts, invoices warranty and so on when doing purchases. These documents will help him or her during the period of complication.

iii. A consumer should obtain the necessary advice from other people about a product which has been advertised in order to protect them from being cheated by unfaithful leaders.

iv. Also consumer can protect himself or herself via non government and non commercial consumer organization in the market.

OTHER ROLES PLAYED BY THE GOVERNMENT IN THE DEVELOPMENT OF COMMERCE

1. Price control advisory committee.

This is statutory committee set up by the government and representative of business, consumers and public authorities. It is charged with overseeing the price structure, review of prices, application from business concerns for price changes and recommendations to the Minister of finance.

2. Trade policies

These are policies created by the government to control trade. Examples of these policies include the following:

a. Export promotion

Export promotion is done through

i. Incentives given to investors in the export sector of the economy

ii. Export promotion organization (BET) Board of External Trade.

iii. Trade expansion through participation in existing international agreement e.g. Lome Convention

iv. Lowering of export tariffs

b. Protectionism

Protectionism is a part of the trade policy aimed at controlling imports and promoting exports as a safeguard to the economy against the adverse effects of international trade.

Forms of protectionism

Protectionism can be in different forms as explained below:

i. **Import tariffs/duties.** These are taxes on goods imported. Import tariffs lead to an increase in prices of imports in relation to local produced goods, the increase in price of imports influence local consumers to opt for locally produced goods and thus leads to fall in imports.

ii. **Import quota.** An import quota is a maximum amount of certain commodities to be imported at certain period of time, quota also discourage import.

iii. **Exchange control.** In this measures the central bank provides limited amount of foreign currency to importers to limit them from importing larger quantities of imports.

iv. **Embargo/Total ban.** This is a policy of prohibiting import of certain commodities which have some negative cultural or economic impact such as pornography, cocaine and second clothes.

c. **Devaluation.** The government deliberately reduces the value of its currency against other currencies. This lowers the general price of locally produced goods and makes imported goods more expensive. In this way the consumers stop consuming imported goods and buy locally produced goods. This discourages traders from importing goods from other countries.

d. **Revaluation.** This is an action of the government of increasing the level of domestic currency. Revaluation aims at making imports cheap.

e. **Trade Liberalization (Free trade).** Free trade in international trade refers to trade policy where by a country eliminates all trade barriers such as tariff and import quota.

f. **Business License.** This is a permitting document that allows a businessman to carry out a certain business. Licenses are given by the government.

4. **Fiscal measures.** These are measures that influence economic activities by using taxes and expenditures. The government can control trade by either lowering or increasing tax.

5. **Government Investments.** The government facilitates commerce by investing in the following:

a. **Public services.** The government provides some services to the public. These are types of services which cannot be provided by the private sector so efficiently e.g. Defence and law enforcement.

b. **Capital and securities market.** The government is involved in capital market by issuing stocks and extending loans. It participates in security market by buying securities from the public and selling them back to the public.

c. **Public corporations.** The government establishes public corporations to engage in production of goods and provision of services. E.g. Tanzania Electrical Company (TANESCO), Air Tanzania Company Ltd National Insurance (NIC), Tanzania Broadcasting Corporation (TBC) etc.

d. **Provision of credits and subsidies.** The government sometimes establishes a special fund for providing credits to business. It also provides subsidies to producers. A subsidy is the government assistance to local producers in form of funds or reduced price of inputs, subsidies enable producers to produce goods at lower cost and thus reduce the price of local goods encourage consumers to prefer domestic goods than imported goods which become relatively more expensive.

TANZANIA INVESTMENT CENTER (T.I.C)

THE ROLE OF T.I.C

- To promote investment (both local and foreign) in the country, this is done by way presenting our investment opportunities, providing brochures, investors guides, e.t.c.
- To facilitate investors from the initial stage of their investment to the last. This is from identification of land company registration, business licensing, work permit, residence permit, tax issues, etc. as one stop facilitation Centre.
- To give investors after care services by visiting them and see if they have any problem that T.I.C can help so that they can smoothly. continue with business and eventually expand.
- To advice government on investment policy issues.

GOVERNMENT MINISTRIES WHICH FACILITATE TRADE

The government has two ministries which are directly involved in facilitating commercial activities in the country.

These ministries are

- i.Ministry of Trade and industries
- ii.Ministry of Finance

1.THE MINISTRY OF COMMERCE AND INDUSTRIES

In Tanzania, the ministry concerning with business affairs in the Ministry of Commerce and Industries. This ministries is responsible for the promotion and development of home and foreign trade. The ministry regulated the retail and wholesale activities. It also responsible for providing advisory services to traders. It controls all imports from other countries and protects home infant industries from unfair competition from foreign multinational corporations.

ORGANIZATION

Even through organization of this ministry may always change, it is basically divided into the following departments:

- i.Administrative department
- ii.Department of commerce
- iii.Department of industries.

i.Administration department (section)

This is charged with the responsibility of overall administration and formulating of the ministry's policies.

ii.Department of commerce

This department is responsible for the promotion of commercial sectors i.e. Trading and commercial services.

This departments is sub divided into:

- i.Internal trade section
- ii.Commercial trade section
- iii.Export trade guarantee section

1. Internal trade section

This section is concerning with the regulation of trading activities within the country. It is responsible for:

- i.Ensuring that the weight and measures used by traders and businessmen are of required

standards.

- ii. Controlling prices of essential commodities such as fuel, sugar, etc.
- iii. Ensuring that the essential goods are equally distributed within the country.
- iv. Issuing of trading license to the prospective retailers and wholesalers.
- v. Provision of training and advisory services to traders and ministry staff.
- vi. Supplying business information and statistics to the business firms.
- vii. Solving trade disputes.

2. External trade section

This section responsible for promotion and development of Tanzanian products in international market. Most of its activities are performed by the Board of External Trade (B.E.T) which was instituted in 1977 and started operations in the same year.

BOARD OF EXTERNAL TRADE (B.E.T)

It was set up with the main objective of keeping a continuous review of export promotion policies in consultation with the concerned Trading and Industries Ministry. It makes an intensive study of the problems facing export of the country and makes recommendations to the government from the time to time for securing its policy adjustments to stimulate exports. It gives particular attention to product development, improvement in export marketing techniques, provision of commercial services to exporters, import substitution. Etc.

FUNCTIONS AND OBJECTIVES OF BOARD OF EXTERNAL TRADE

- i. Marketing of Tanzanian products in the foreign market.
- ii. Advising the manufacturers how to improve the quality of their products in order to get bigger market overseas.
- iii. Arranging the trade fairs and exhibition. In foreign countries to introduce Tanzanian products in those countries.
- iv. Publishing and providing information on the responsibilities of the expansion of exports.
- v. Providing training facilities on exporter matters.
- vi. Sending trading delegations study terms for expert study teams of markets abroad.
- vii. Encouraging the production and marketing of handcrafts.

3. Commercial services section

This section is responsible for regulation promotion and development of commercial services in Tanzania for the benefit of producers, traders and consumers. Those commercial services include: Insurance and communication warehousing etc.

4. Export credit guarantee section

This section provides insurance for exporters to cover risk of being unpaid where credit has been allowed.

iii. Department of industries

This department is specifically responsible for the promotion and development of industries in Tanzania.

The ministry through this department:

- i. Formulates the industrial policy and encourage the establishment of new industry in both public and private sector including foreign investors.
- ii. Induces the industrialists to establish new industry in less developed areas.
- iii. Cooperate with the department of commerce to give protection to the domestic industries against the foreign competition.
- iv. Provision of financial assistance to the industrialists.

2. THE MINISTRY OF FINANCE

This is the ministry responsible for control of all financial sectors of a country. The ministry of finance applies instruments of fiscal policies i.e. Taxation and government expenditures to regulate business activities. For example when there is low purchasing power due to unemployment, the ministry increasing spending and reduces tax. The ministry of finance also applies instruments of monetary policy such as open market operation (OMO) through the central bank to control money supply in order to regulate the economy. For example when there is inflation The central bank reduces money supply.

TAXATION

- This is a legal transfer of money from the public to government mainly as government revenue.
- A TAX is a compulsory contribution made by the taxpayers to the state towards its expenditure.

PURPOSE OF TAXATION

- I. To raise government revenue. The main purpose of taxation is to raise revenue. The main source of government revenue is taxation. Tax help to cover a daily revenue expenditure e.g. education, defense, health.
- II. Reduce income inequalities. Through PAYE (Pay as you earn), where the high income earners reduce the gap between rich and poor.

- III. To increase economic activities. Money collected from taxation can be utilized for economic and social development e.g. schools, hospitals etc.
- IV. To discourage consumption of harmful commodities. Imposing high tax on Commodities such as beers, cigarettes so as to discourage their consumption.
- V. To adjust balance of payment deficit. balance of payment is widened by high importation and less exportation.
- VI. To adjust inflation caused by high demand due to the more money in the circulation taxation help to reduce money in circulation.
- VII. To restrict importation for the purpose of protecting local industries By imposing heavy custom duties, discourage importer for products which are locally produced.

CANONS /PRINCIPLES OF TAXATION

- i. EQUITY. The burden of taxation ought to be distributed owing tax payers according to their ability to pay. Taxes must be proportional to the income of the tax payers it must conform with his ability to pay its desirable to use income tax to ensure on equitable payment of TAX for rich and poor rich to pay more and poor to pay his taxes
- ii. CONVENIENCE. Tax should be easy to collect and not easy to evade, the time and manner of collection must be convenient to both the state and the tax payers
- iii. CERTAINTY. Taxes should not cause any hardship to the taxpayer. A taxpayer should know exactly what he has to pay, the manner of payment and time of payment and there must be no confusion in this regard.
- iv. ECONOMY. The cost of collection should be low and the state should receive the full amount of the tax paid. The amount collected should afford to meet the cost of administration and collection.
- v. PRODUCTIVITY OR HIGH YIELD. A tax should yield the revenue necessary to meet the changing need of the economy, every tax imposed should give greater income to the government.

- vi. **SIMPLICITY.** The tax system must be simple to understand by both tax payers and tax collectors since the high tax increases tax evasion.
- vii. **DIVERSITY.** There must be different type of taxes so that the burden of these is an different group of society.
- viii. **ELASTICITY.** It should be possible to adjust the rate of a tax to meet changed financial circumstances. It must be possible to increase or decrease the taxes according to the economic situation of the country e.g. during inflation taxes must be increased and vice versa.

CLASSIFICATION OF TAXES

Taxes can be classified according to the following groups.

- I. According to tax base A tax base is what are you taxing. The tax base is the taxable income. under this we have a.
 - a) Income tax e.g. PAYE, corporation tax, development levy
 - b) Capital tax e.g. property tax capital gain tax, capital transfer tax
 - c) Consumption tax e.g. excise duties, VAT, sales Tax.
- ii. According to the shift of incidence
 - Direct tax
 - Indirect tax
- iii. Whether the tax is specific unit or advalorem
 - a) Unit or specific taxes are levied on the volume of what is to be taxed e.g. excise duties
 - b) Advalorem tax is levied on the value of the tax base e.g. income tax, VAT
- a) Regressive taxes. These increasing as income of people increase
- b) Proportional taxes. These are constant taxes rate among all tax payers
- Regressive taxes. These reduces as tax payers income increases.

DIRECT TAXES: Are taxes imposed on incomes of individuals or properties of individuals. eg payee

ADVANTAGES OF DIRECT TAXES

- i. EQUALITY. Direct taxes are usually assessed in accordance with a graded scale so that the rate of taxation arises in relation to income. it is progressive.
- ii. ECONOMICAL. Cost of collection of direct taxes are comparatively low especially where the employer acts as tax collector , this save expenses of collection
- iii. collection
- iv. REDISTRIBUTION OF WEALTH. The direct tax plays significant role in redistribution of incomes.
- v. REVENUE. The yield from personal taxation is fairly certain and can be calculated reasonably accelerate in advance.
- vi. ELASTIC. If the government suddenly stands in need of more revenue in an emergency, direct taxes can well serve the purpose.
- vii. KNOWLEDGE TO TAX PAYER. The tax payer generally know exactly how he has to pay.
- viii. • STIMULATE SPENDING OF MONEY. The interest of the tax payer in the spending of public money is stimulate.

DISADVANTAGES OF DIRECT TAXES

- i. EVASION IS POSSIBLE. The assessors can submit a false return of income and thus evade the tax that is why a direct tax is a tax honesty. Evasion is encouraged more when rates of direct tax rate high
- ii. DETERRENT TO WORK. A high rate of personal taxation may cause people to workless. A progressive rate of tax means that over a certain income people may prefer to have leisure rather than extra earnings because a high proportion later is taken by the government high rates of personal taxation will discourage the progression of extra goods and services
- iii. . DETERRENT TO SAVING. A high rate of personal taxation may reduce consumers ability to save since it leaves them with less money to spend indeed the effect might lead to a reduction in saving by who are determined to maintain their present level of expenditure

iv. DETERRENT TO ENTERPRISE. Corporation tax is a tax on the profits of companies and such a tax may stifle enterprise effort and enterprise may be revitalized and discouraged where rates of direct taxation are highly progressive.

v. IT IS NOT FLEXIBLE. It is not easy to revise a system that is fair for all classes.

INDIRECT

TAXES

These are taxes imposed on goods and services.eg VAT,

ADVANTAGES OF INDIRECT TAXES

Indirect taxes are imposed on goods and services so that impact and incidence are on direct persons

i. VOLUNTARY PAYMENT. Payment of indirect taxes is voluntary in the sense that consumer can choose to avoid expenditure on taxed goods and services e.g. if an individual does not pay any tax on these items.

ii. MEANS OF REACHING THE POOR. It is same principle that every individual should pay something however little to the state the poor are always exempted from paying direct taxes they can be reached only through indirect taxes.

iii. ADMINISTRATION. Indirect taxes offer certain administrative merits, custom and excise duties are paid by importers and manufacturers wholesalers is tax is collected from wholesalers and retailers. Hence indirect taxes are more difficult to evade and easier to collect than direct

iv. SELECTIVITY. Indirect taxes may be used to select to achieve particular aim e.g. they can be used as an instrument of checking the consumption of harmful

commodities such as tobacco and alcohol and other intoxicated are highly taxed.

v. IT IS CONVENIENT. The method of payment is convenient, the tax payer does not feel the burden so direct commodity taxes enable foreign visitors who would otherwise be exempt from taxation to be reached.


DISADVANTAGES OF INDIRECT TAXES


..... ✕👉 REGRESSIVE. Indirect taxation is regressive in character they fall more heavily on people with low income than those with high income. The proportion of tax payers income paid in indirect tends to diminish as that income increase.

..... ✕✕👉 UNCERTAINTY YIELDING REVENUE. They are uncertain in yield unless necessities are taxed. In case of goods with elastic demand, the tax might not bring in much revenue the tax will raise the price and contract the demand when the product is not purchased the question of the tax payment does not arise it is not easy to determine the incidence.

..... ✕✕✕👉 COST OF LIVING. An increase in indirect taxes can raise retail prices and hence the cost of living.

..... ✕❖👉 UNECONOMICAL. Indirect taxes are not economical to the tax payer once he may pay more than the amount actually received by the state each middlemen taking margin may receive a cancelled increase.

..... ❖  HIGH COST OF COLLECTION. The real cost of collection of indirect tax may be high.

..... ❖  EASY TO SHIFT. The indirect tax may be shifted onto those who were not intended to bear it.

THE ECONOMIC EFFECT OF TAXATION

- I. Disincentive to work.
- II. Disincentive to saving.
- III. Disincentive to investment.
- IV. Disincentive of production. Producer will diverge from higher taxed industries to lower taxed industries taxation of some commodities may divert economic resource from high to low rated new industries particularly may be attached to places where the rates are low.
- V. inflationary. Where tax is shifted on to the consumer higher prices may give rise to demands for higher wages leading to higher costs leading to higher prices of other commodities

FEATURES/CHARACTERISTICS OF TAXATION

- It is compulsory charge payable to the government.
- Only the government has power to levy taxes.
- Both citizens and non citizen are liable to pay tax of one kind or another.
- There is no consideration relation in taxation.
- Once the tax has been collected the government does not have obligation to account for the way the revenue has been used.
- The payment of tax is made in monetary terms.
- The power of taxation is mainly to be used in collecting revenue is the state and not is the accomplishment of other objectives.

THE TANZANIA REVENUE AUTHORITY

The Tanzania Revenue Authority Act No. 11 of 1995 established TRA. The Authority is a semi-autonomous agency of the Government, responsible for the administration of the Central Government taxes as well as several non-tax revenues. The Authority, which administers a number of taxes, is under the general supervision of Board of Directors. The list of tax laws administered by TRA is shown in Tax Laws administered by TRA.

Functions of TRA

The major functions of the Authority are to:-

- Assess, collect and account for all Central Government Revenue.
- Administer efficiently and effectively all the revenue laws of the Central Government.
- Advise the Government on all matters relating to fiscal policy.
- Promote voluntary tax compliance.
- Improve the quality of services provided to taxpayers.
- Counteract fraud and other forms of tax and fiscal evasion.
- Produce trade statistics and publications.

ADVANTAGES OF VAT

- i. VAT is a kind of tax which is well known by taxpayer and simple to collect.
- ii. VAT is charged only when the consumer buys goods or use certain services.
- iii. It is open because the taxpayer knows exactly the amount of tax to pay and when to pay it.
- iv. VAT are charged from different products and business and thus distribute the tax burden to large number of tax payers V. VAT encourage international trade i.e. export for charging goods and services to be exported at zero rating level.
- v. VAT encourages people to save and invest their money into the economic sectors.
- vi. VAT tend to reduce and sometimes solve the economic problems in the business.

TERMS IN TAXATION

..... ✎✎ Corporation taxes. These are taxes levied on the profit of the companies, corporation tax is paid by incorporated business.

..... ✎✎✎ Taxes on capital as such is not taxed. Tax is paid when capital is sold or transferred. The most important taxes are capital gain tax and capital transfer taxes

..... ✎✎✎✎ Capital gain tax (C.G.T). Capital gain tax may be paid when assets are sold at a profit e.g. a person who makes a capital gain of shs 8000 as a result of buying and selling shares may have to pay capital gain tax on the profit

..... ✎✎✎✎ Capital transfer tax. Capital transfer tax may have to be paid when assets are transferred from one person to another e.g. son, capital transfer tax may have to be paid in this is also called inheritance tax.

..... ✎✎✎ TAX THRESHOLD. Is the income level at which a person becomes liable to income tax after account has been taken of all allowance to which he is entitled.

vi. TAX RESERVES. Is an amount set aside for payment of tax when due since taxes on company profits are collected in arrears.

..... ✎✎✎✎ The marginal rate of tax. Is the amount of tax a person would pay on each successive unit of legal tax base. The effective rate of tax or average rate of tax the actual tax paid as proportion of it we arrive at the effective rate of tax

Marginal rate of tax = $\frac{\text{increase in tax paid}}{\text{Increase in income}}$ Or

marginal rate of tax = $\frac{\text{change in tax}}{\text{Change in income}}$

NB with progressive taxes. It is a case that marginal rate is higher than the Average rate.

CONTRACT OF SALES

Contract

Is an agreement with legal force. It is an agreement which has legal binding nature.

An agreement: It is an offer (proposal) by one party and acceptance by one party. Is where the offeror and offeree relationship unconditionally. An offer made by one person is accepted by one person whom the offer is made.

Essentials of a contract (features)

(a) Agreement: Offer and acceptance

(b) Intention to create a legal relationship. There must be evidence that the parties involved intended to have a legally binding relationship. Example: An agreement for social interaction cannot be enforced by law, example you can't sue a person who fails to turn up for an appointment to have cup of coffee with you.

(c) Consideration: something valuable whether tangible or intangible which is given in exchange for another valuable thing eg: If I give you a watch in exchange for money, therefore watch is consideration for money.

*Deed: A contract without consideration

(d) Contractual capacity: Parties to a contract must have contractual capacity e.g people with 18 years and above. There are people who are prohibited by the law to enter into a contract and these people are minors, drunkenness impaired, insane. Agreement made by such people are said to be Avoidable (because party lack contractual capacity so withdrawal from such contract is allowed).

Avoidable contracts can also be caused by the induced , misrepresentation and undue influence

(e) Form: There are prescribed forms for certain contracts. Eg A contract for sale of land, legal mortgages and leases must be writing.

(f) Definite term (contents of contract): Terms of the contract must be clear and explicit. If they are ambiguous and difficult to understand the courts of law will not enforce them.

*Terms of contract are: issues which have to be discussed while negotiating a contract and have to be agreed upon before the contract is made. The terms of contracts specify the rights and duties of the parties to the contract. Terms of contract are express terms or implied terms.

Express terms: Are those issues which have been specifically discussed and agreed upon by both parties in the process of negotiating the contract.

They are subdivided into

(a) Conditions

(b) Warranties

a) A condition is a term which is fundamental to the nature of the contract. Breach of a condition entitles the injured party to the right to cancel the contract, If he so wishes or to go ahead with it and get damages for the loss suffered, eg. If we agree that I am going to buy your goat at 15,000/= you cannot give me a sheep instead because it is the same size as the goat I agreed to buy (this is breach of a condition).

b) A warranty: Is a minor issue which does which does not significantly affect the essence of the contract. From the example above. If you deliver to me a goat which fits my requirements but happens to have a broken horn (this is breach of warranty).

-A breach of a warranty allows the injured person to receive damages but not the right to repudiate the contract.

II: Implied terms: Are those issues which may have been overlooked or deliberately ignored at a time of negotiations, although their impact significantly affects the position of the parties to the contract.

-They are subdivided into

(a) Ones implied by the court

(b) Ones implied by statutes

(g) Legal objects: any agreements which is contrary to public policy is void (it does not have any legal force). Eg: All types of agreement to commit crime are not valid and if one party fails to perform his part the other party has no recourse.

(h) Genuine concept- This requires parties to contract to reach agreement without the influence of the acts such as fraud, Misrepresentation, mistake, undue influence.

IMPORTANT CONTENTS OF A CONTRACT

A valid contract should possess the following contents;

- consideration
- time and date
- signature
- name and address of each party
- terms and conditions of the contract

CLASSIFICATION OF CONTRACTS:

1.Oral and written contract

*Oral contracts are contracts that are made by words of mouth

*Written contracts are contracts that are put into writing.

2. Uni-lateral contract and Bi - lateral contract

* Uni - lateral contract is a contract where one party to contract makes a promise that the other part can accept only by doing something eg: will give you 10,000 if you bring back my wallet which was stolen yesterday.

* Bi-lateral contract. Is a whereby both parties makes the promise.

3. Executory and executed contracts

* Executory Is a binding agreement in which one or all parties to contract have done or fulfilled its obligations.

*Executed:Is a binding agreement in which one or all parties to contract have done or fulfilled its obligation

4. Valid or invalid contracts

* Valid contract is the contract that satisfies all the law requirements.

* Invalid contract: Is the contract that doesn't satisfy the relevant law requirements.

(It may be void ,voidable or unenforceable contract)

* Void contract: Is the contract in which the parties have attempted to contract, but the law did not give effect to the agreement because there are common mistake on some major terms. In a void contract there are no contractual rights or obligations and so has no legal effect.

Is an agreement that neither party may legally enforce. eg: the purpose of the agreement was illegal or because one part lacked capacity to make it.

* Voidable contract: Is an agreement that because of some defects may be terminated by wronged party but not by both.

NOTE

Not all contracts that contain illegal terms are necessarily void. An illegal term can

be removed from the contract to form a valid contract providing that the remaining terms of a contract are sufficient.

* Unenforceable contract: Is a contract where the parties intend to form a valid bargain but a court declares that some rules of laws prevents enforcing it.

DETAIL DISCUSSION OF SOME TERMINOLOGIES:

1. Parties: Any contract must have two parties. The parties may be natural person like Neema Maganga or artificial person created by law such as corporate bodies like companies.
2. An offer (proposal): Is a statement that proposes definite terms and permit the other party to accept the terms. The one who give an offer is called offeror or proposer.

-Characteristics of an offer:

- (a) It must be made willingly i.e offeror must be willing to be bound by the terms she
- (b) It must be clear and certain
- (c) It must be final expression by the offeror of his willingness to be bound should his offer be accepted
- (d) It must be communicated orally, in writing or by conduct .
- (e) It should be complete when it comes to the knowledge of the offeree.

NOTE

Contrary to above characteristics it is called invitation to treat (offer to chaffer): is an invitation for other people to submit offers which may be accepted or rejected.

eg: Goods displayed in a shop. Advertisement, auction, inviting tenders.

Termination of an offer: An offer can be terminated as follows :-

(a) Revocation: withdraw before it is accepted, here the offeror can withdraw his offer before acceptance by offeree.

(b) Lapse of time: If is time stated in the offer or after reasonable time.

(c) Failure of the acceptor to fulfill conditions.

(d) Death or Insanity of offeror or offeree

(e) Counter offer or rejection. Response acceptance with new terms can lead to termination.

3. Acceptance: Is an agreement to terms of an offer, this converts the offer into legally binding contract .

Characteristics of acceptance

(a) It is an assent to the proposal by the person to whom it was made.

(b) An acceptance should be absolute and unconditional to all terms set out in the Offer. Acceptance must exactly mirror the original offer made.

(c) Acceptance must communicated to the offeror in writing or orally by an authorized person.

(d) Acceptance is complete when it comes to the knowledge of the proposer.

(e) Acceptance by post is complete as soon as it is posted (provided it was implied in negotiations)

4. Consideration: Is some rights, interest, profit or benefit accruing to the one party, loss or responsibility given, suffered or undertaken by the other eg one party provides money and the other provides goods/services both money and goods/services are regarded as legal consideration.

NOTE : In gift giving no consideration, therefore no contract

Characteristics of consideration

(a) Must be adequacy and sufficient: Must be fixed by the parties out of their own free will or consent. It does not base on the market value only but also on the wishes of the parties

- (b) Must have economic value: That is why sentimental motives such as natural love and affection have no economic value therefore cannot qualify as good consideration
- (c) Must be legal

Types of consideration

- (a) Executory consideration:

A consideration resulting from an exchange promises to perform acts in the future. Eg: A promises to deliver goods to B and B agrees to pay for them.

- (b) Executed consideration: Happens when one party promised to do something in return for the act of another not mere promise of future performance.

- (c) Past consideration: Comprises an act which was done before the promise was made and not in response to sub-sequent promise (It is not a good consideration)

5. Capacity to contract: means competence to enter into a legally binding agreement because both parties are mentally capable to understand a contract.

Factors considered or factors vitiating capacity : The following factors should be considered when deciding on capacity to contract

- (a) Age: A minor/infant is not competent to contract because she has not attained majority age/contract age. In Tanzania the age of majority is 18 years and above. Below 18 years lack experience to exercise sound judgements, she cannot protect herself. Except for necessities and beneficial contracts.

- (i) necessaries: goods suitable to the conditions in life of a minor and to his requirement at the time of the sale and delivery.

- (ii) beneficial contracts like training that is advantageous to the minor.

- (b) Soundness of mind: A person who is of sound mind is a person capable of understanding the contract and forming rational judgement eg Mentally disorder, drunkard have no sound mind.

(c) Personal disqualified by law: Persons disqualified by law are

(i) Bankrupt persons: the law disqualifies a person declared bankrupt to enter contract.

(ii) Unincorporated bodies eg club associations and societies can't enter into contract because they have no separate existence in law, they can do so through agents.

6. Free consent: contracting out of own free will i.e freedom of contract. Two or more person are said to consent when they agree upon the same thing in the same sense.

Factors which undermine free consent:

(a) Coercion or Duress: Committing or threatening to commit any act unlawful, detain any properly with intention of causing any person to enter into an agreement

(b) Undue influence occurs where the relationship between the parties such that one of the parties are in a position to dominate the will of the other, and uses that position to obtain an unfair advantage over the other.

(c) Misrepresentation /Representation

(d) Mistakes: Entering the contract believing that something material exist while does not exist.

7. Legally /lawful object: The subject matter or object of the contract must be lawful or legal eg supplying heroin is illegal, therefore heroin is lawful object. This is the matter of jurisdiction i.e to be decided by law.

DISCHARGE OF CONTRACT:

Means the rights and the obligations of both parties to the contract have been properly fulfilled. i.e the contractual relationship between them is terminated and none of them has any more claims from or owes the other. Therefore obligating and rights come to an end. This is where parties to contract are no longer under a duty to perform their part of agreement.

WAYS A CONTRACT CAN BE DISCHARGED

A. Discharge by performance: The common way of discharging contracts is by performing them to the satisfaction of the parties involved i.e by fulfilling the agreement with free will. The contract then comes to an end.

B) Discharge by agreement: Sometimes performance is impossible needing the parties to

discharge the contract by natural agreement with free will. Discharge by agreement may take the following forms:

(i) Satisfaction and accord: This is applicable to executory contracts where a contract has been performed partly and a party which has performed its obligation (innocent party) may require some compensation for what it performed.

(ii) Waiver: Here the innocent party (with the right to demand compensation) may agree to waive her rights i.e not claim any compensation for the part it performed.

(iii) Novation: This happens where the existing contract is substituted for a new contract or a new contract is formed to discharge the old contract with the free consent of all parties concerned.

C) Discharge by the subsequent impossibility (Frustration): A contract may become impossible to perform because of certain circumstances. After a contract has been made by both parties willing to perform their roles effectively, circumstances may change to the extent that it becomes impossible or illegal or unreasonable to perform the contract. Circumstances can be :-

(i) Subsequent physical impossibility. Where it is impossible to physically fulfil duties and obligations under a contract, the physical impossibility may however arise after the contract has been made.

(ii) Subsequent illegality. This is where after a contract has been made there is new legislation which makes the contract illegal, therefore the contract becomes illegal in common law.

(iii) Disappearance of purpose of the contract: A contract which is made on the basis of a future event occurring if that event does not happen a contract is frustrated and therefore discharged.

(iv) Distortion of the commercial viability of the contract: Sometimes changes which make a contract an unreasonable undertaking take place after the contract has been made. Therefore it may be rational to terminate the contract if this makes both parties better.

(v) Destruction of the subject matter i.e the subject matter being destroyed

(vi) Death, insanity, incapacity and illness, this is applied mainly for personal services e.g. employment.

(vii) Acts of God like floods, famine, droughts, earthquake and the like of which their occurrence frustrates the contract.

D) Discharge by breach: Breach of a contract is an actual failure by a party to a contract to perform his obligation under that contract or an indication of his intention not to do so without any justifying cause, therefore an injured (not in breach) party may choose not to sue the other party and treat the contract as discharged. Discharge by breach can be :-

(i) Actual breach: occurs when obligations are violated having become due eg. seller fails to deliver the goods on due date.

(ii) Anticipated breach: Takes place where obligations are violated before they become due eg. a seller informs the buyer about his intention of failing to deliver goods.

REMEDIES FOR BREACH OF CONTRACT

Remedy means any of the methods available at law for the enforcement, protection or recovery of rights or for obtaining redress. i.e where a party breach the contract the other party may be favoured by one of the following remedies depending on the nature of the breach.

1. Damages: Injured party may claim compensation in money form to cover loss suffered due to the breach. The aim is to put the injured party as near as possible in the same position so far as money can do as if he had not been injured
2. Restitution: Remedy to an innocent party, here the injured party claims back his performance, an item or its reasonable value (for item if an item can be traced)
3. Specific reliefs (equitable reliefs): These include:

(i) Specific performance. Here the innocent party asks the court to order the other party to do according to the terms of the contract. It is mainly applicable in respect of contracts requiring personal services.

(ii) Injunction (stop order): Innocent party will ask the court to order the breaching party to undo a breach of contract.

(iii) Rectification: This remedy will be granted where there has been a mistake not in the actual agreement but which come into existence when the agreement is put into writing.

4. Quantum meruit (so much as deserves): Where the contract has been breached but one party still enjoying the benefits out of the transaction, the party enjoying will be liable for the benefits deriving to avoid unfair advantages. This is based on the implied condition that in a void contract a party deriving benefits should pay for those benefits

SALE OF GOODS CONTRACT

A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for money consideration called the price. It is an agreement to sell where the transfer of property in goods is at a future date or subject to the completion of specific conditions. The sale of goods contract is complete when the terms and clauses set out in the contract have been fulfilled and the transfer of property took place.

Essentials of sale of goods contract (characteristics)

1. Parties to contracts: The parties to sale of goods contract are seller and buyer

-A seller means a person who sells or agrees to sell goods.

-A buyer means a person who buys or agrees to buy goods.

2. Transfer of property: What is transferred in sale of goods contract is properly in goods

3. Subject matter of contract: The subject matter of sale of goods contract are goods.

4. Price: This is consideration which must be in terms of money. Goods for goods do not fall under contract of sale of goods.

5. Agreement to sell and sale: Contract of sale includes sale and an agreement to sell

-Sale: There is immediate transfer of goods in property from seller to buyer.

-An agreement to sell a property in goods is transferred in future or on fulfillment of certain conditions stipulated in a contract.

6. Formalities of a contract: The contract of sale of goods may be made in writing (either with or without seal) , orally that is by word of mouth or as implied from the conduct of parties

7. Nature of parties: The capacity to buy and sell is regulated by general law of capacity to contract (person entering into a contract must be competent). But under this contract persons who are incompetent to contract can also enter into a contract to sale but these contracts must be for necessities and they will be liable to pay a reasonable price for them.

8. Value of goods: The value of goods is ascertained by price. It may be fixed by the contract or may be left to be fixed in manner provided by the contract(eg. by valuation). It may also be determined by the course of dealing between the parties eg: according to previous transactions between them, custom of trade profession.

CONDITIONS AND WARRANTIES

Under the law of contract, two types of statement are made in the course of negotiating a contract of sale of goods

i. The pre-contractual i.e. Representations

ii. Contractual statements or terms these being either conditions or warranties.

Implied condition and warranties in a contract of sale.

A: Title

i) Conditions as to title: Unless the circumstances show different intention, there is an implied condition on the part of the seller that in case of a sell she has the right to sell goods, and in case

of an agreement to sell will have the right to sell the goods at the time when the property is to pass.

*The implication is that the person who buys goods to which the seller has no title is allowed to recover the whole price even though she had some use and enjoyment from the goods before they are dispossessed by the true owner.

ii) Warrants as to title: unless the contract show different intention there is an implied warranty that the buyer shall have and enjoy quiet possession of the goods. Also there is an implied warranty that the goods shall be free from any charge/encumbrance in favor of any third part not known or declared to the buyer before or at a time when the contract is made.

B. Time

i. Time of payment: Unless a different intention appears from the contract by stipulations the time of payment is not of essence so failure to pay on time is a breach of warranty not of condition but a seller can provide expressly for right of resale in the absence of prompt payment in case of perishable goods prompt payment is a condition not a warranty.

ii. Time of delivery: The act is silent but we use English laws where time of delivery is fixed by the contract and breach of it is breach of condition and the buyer can reject the goods.

C) Quality and Fitness: This is governed by Caveat Emptor (buyer beware) i.e. When buying you must be aware of all defects obtainable in the goods, except for :

i. An implied condition of quality and fitness for any particular purpose of goods supplied: i.e. when the buyer expressly or impliedly makes known to the seller the particular purpose for which goods are required.

ii. An implied condition that the goods should be of merchantable quality where goods are bought by description from a seller who deals in goods of that description.

iii. An implied condition or warranty as to quality or fitness for goods attached by the usage of trade.

D) Sale by description: There is an implied condition that the goods shall correspond with the description in case there is a contract for the sale of goods by description.

E) Sale by sample. In the sale by sample there is:

i) An implied condition that the bulk shall correspond with the sample in the quality.

ii) An implied condition that the buyer shall have a reasonable opportunity of comparing the bulk with sample.

iii) An implied condition as to freedom from any defect, rendering them un-merchantable which would not be apparent on reasonable examination of the sample.

EFFECTS OF CONTRACT OF SALE

Effect of contract of sales as provision of the act is divided into two parts

1. Transfer of property in goods
2. Transfer of title

TRANSFER OF PROPERTY IN GOODS

The provisions of act regarding the transfer of property in the goods are important due to the following reasons:

- i. The parties to contract of sale do not usually express their intentions as to the passing of the property.
- ii. The risk normally passes when the property passes and the seller can in general terms only sue for the price as distinct from damages if the property has passed. "Res perit domino" (a thing perishes to the disadvantages of its owner).

Rules of ascertaining intention as time when property passes:

According to the sale of goods act the rules of ascertaining intention as to time when property passes are five.

Rule 1. For the goods in a deliverable state the property in goods passes to the buyer when the contract is made.

Rule 2. In case of the goods not in a deliverable state, the property doesn't pass until the seller puts them. Into a deliverable state and the buyer is notified thereof.

Rule 3. Where there is a contract for the sale of specific goods in a deliverable state but the seller is bound to weigh, measure, test or do some other act or things for the purpose of ascertaining the price, the property doesn't pass until such act or thing is done and the buyer has notice thereof.

Rule 4. In case of sales on approval or in case of sale or return or other similar terms, the property passes to the buyer by either of the two ways:

1. When the buyer signifies her approval or acceptance to the seller.

2. The buyer retains the goods without giving notice of rejection and then the property passes on the expiry of a return period or reasonable time.

Rule 5. Where there is a contract of sale of ascertained / future goods by description and goods of that description the transfer to buyer will only be made when the goods have been ascertained, identified and valued.

2. TRANSFER OF TITLE

This is that transfer of the right to legal ownership, this is only possible with the presence of true owner of the goods who possess a good title i.e. the buyer who takes goods from a seller with no title receives no better title than the seller e.g. buying goods from a thief goods would then have to be restored to the true owner possessing title when so claimed.

Exceptions to this rule: According to the sale of goods act:

- i. Buying in good faith from mercantile agents who holds the goods with the owner's consent.
- ii. Where a second buyer, acting in good faith buys goods left in possession of the seller by the first buyer.
- iii. Where a second buyer, acting in good faith buys goods held by a first buyer who has not fulfilled all the sellers conditions of purchase.
- iv. Where a buyer, acting in good faith, buys goods without notice of any defect of title of the seller.
- v. where the sale is ordered by the court, the buyer received a good title and where a seller has led the buyer to believe in the formers title the buyer receives a good title.

PERFORMANCE OF CONTRACT OF SALE OF GOODS

(A) Duties and rights to parties

i) Duties of seller: To deliver the goods to the buyer or to allow delivery of the goods to take place where the seller agree to deliver the goods at his own risk at a place than the place of sale the buyer (unless agreed) take any risk of deterioration in goods in transit.

ii) Right of seller: To be paid the contract price for goods delivered. Where the ownership has not passed to the buyer, the seller is free to act on goods. Where the buyer has not paid and ownership has passed to the buyer the seller may exercise lien on the goods if they are still in his

possession/stoppage in transit and the right of repossession and limited right of resale where the goods are perishable or the right is reserved in the contract.

iii) Duties of buyer: To accept the goods and pay for them in accordance with terms of the contract of sale. The buyer is deemed to have accepted the goods when he has accepted them or when the goods have been delivered to him or after lapse of a reasonable time or he retains the goods without informing the seller that he has rejected them. When the seller is ready and willing to deliver the goods and the buyer does not within a reasonable time take delivery of the goods, the buyer will be liable to seller for any loss and charge for neglect to take delivery.

iv) Rights of buyer: To receive goods under the terms of contract. When goods not previously examined, are delivered by the seller, the buyer is not deemed to have accepted them unless and until he examines them. A seller should give a buyer reasonable time of examining the goods. Where the wrong quantity is delivered, the buyer has the right either to reject the delivery or to accept it and pay the contract price for what he has received.

To reject delivery by instalments, unless he has agreed to this procedure.

B) Delivery of the goods:

Definition; Delivery is a voluntary transfer of possession from one person to another. Delivery may take any of the following forms:

i. By physical transfer of the goods and where the goods are handed to the buyer with the intention of transferring possession.

ii. By delivery of the means of control e.g. handing of the key.

iii. By attornment (where the goods are in possession of the third party) e.g. a warehouseman who acknowledges to the buyer that he holds the goods on his behalf.

iv. By delivery of documents of title e.g. bills of lading representing the goods is delivered.

v. By constructive delivery as where the buyer already has possession of the goods as a bailee e.g. in a hire purchase.

Place of delivery: In absence of express agreement place of delivery is the place of business of the seller or if he has no place of business his residence. Therefore the seller's duty to deliver does not mean he must necessarily take or send the goods to the buyer. Therefore the buyer is under a duty to collect the goods from the seller's premises or storage center.

NOTE : For sales of specific goods which are found in some other place than the place of delivery is where they are found.

Time of delivery: Under the contract of sale, if the seller is bound to send the goods to the buyer if no time for sending is fixed the seller is bound to send them within a reasonable time and at reasonable hour.

*What is reasonable time/hour it is matter of fact.

C: Quantity of goods delivered

The provisions as to quantity delivered are

i. Where the seller delivers to the buyer a quantity less than the contract quantity the buyer may reject them but if he accepts them he must pay at the contractual rate.

ii. Where the seller delivers to the buyer a quantity larger than he contracted the buyer may accept the goods included in the contract and reject the rest or reject the whole.

iii. Where the goods delivered are mixed with goods of different descriptions not included in the contract the buyer may accept the goods in accordance with contract and reject the rest or he may reject the whole.

NOTE : Usage of trade, special agreements or course of dealing between parties can lead to exceptionals.

D) Delivery by instalments: Unless agreed, the buyer is not bound to accept delivery thereof by instalments.

*If the agreement is the delivery by instalments and that the seller fails to make one or more instalments delivery or the buyer neglects or refuses to take delivery or pay for one or more instalments (depending on the terms of contract) the contract is repudiated or give rise to claim for compensation.

E) Delivery to a carrier:

Where the seller is required to send goods to the buyer through carrier (whether named by the buyer or not) for the purpose of transmission to the buyer it is deemed to be a delivery of goods to the buyer.

Types of carriers

a) Common carrier :Is the carrier who publicly hold himself out to carry goods of any customers from place to place in accordance with specified routes and often scheduled timing. A common carrier accepts all customers offered to him except where:

i) No room is left in his transport.

ii) The goods are not of kind which he advertises to carry.

- iii) The goods are improperly packed.
- iv) The goods are of dangerous character.
- v) Goods are not fit to be carried by the public carrier.

Duties of common carrier

1. To transport goods for any person on his scheduled routes provided payment for the hire at reasonable rates is tendered.
2. To carry goods without unnecessary delay or deviation and deliver in similar manner.
3. To deliver in good condition and responsible for loss or damage except for Act of God, war, unsuitability of travel due to risk of injury (animals), negligence of the sender

b) Private carrier: Is a carrier who carries goods on selected routes for selective customers. He deals with each customer according to his specific needs and contract accordingly. Unless otherwise authorized by the buyer, the seller shall make contract with the carrier on behalf of the buyer as having regard to the nature and other circumstances. If the seller otherwise and the goods are lost/damaged in transit the buyer may hold the seller responsible.

BREACH OF CONTRACT OF SALE

The contract of sale may be either be breached by the seller or the buyer. The injured party is entitled to certain remedies.

Remedies of the seller: This happens when there is a breach by the buyer. Remedies of the seller is divided in two:

- i) Real remedies against the goods: Even if the property in the goods has passed to the buyer the unpaid seller of the goods has by implication of law the following remedies:
 - a) A lien on the goods or the right to retain them while he is in possession of them.
 - b) In the case of the insolvency of the buyer, a right of stopping the goods in transit.
 - c) A right to re-sale where the property has not passed to the buyer.

Definition of unpaid seller: A seller when the whole of the price has not been paid or tendered or a seller when a bill of exchange or other negotiable instruments has been received as conditional payment and the condition has not been fulfilled e.g. Dishonour

ii) Personal remedies against the buyer: In addition to the real remedies the seller has personal actions against the buyer in the following ways:

a) Action for the price: This is maintainable where the property in the goods has passed to the buyer and the buyer neglects or refuses to pay for the goods according to the terms of contract.

b) Action for damage: This is maintainable WHERE the buyer neglects or refuses to accept and pay for the goods.

Remedies of the buyer: This happens when there is a breach by the seller. Remedies of the buyer is divided in to three:

i) Rejection of the goods: Where the seller breaches a condition the buyer may repudiate the contract and reject the goods. The buyer is not bound to return the goods rejected but he must inform the seller of his rejection.

ii) .Action for damages: This can be maintained when,

a) Non-delivery of goods: When the seller neglects or refuses to deliver the goods, the buyer may maintain an action against seller for damages.

b) Breach of Warranty: In case of breach of warranty the buyer do not reject the goods but he may maintain actions against the seller for damages.

iii) Right to specific performance: The court upon application by plaintiff may direct that the contract shall be performed specifically without giving the defendant the option of retaining the goods on payment of damages.

ORGANIZATION AND MANAGEMENT OF A BUSINESS

MANAGEMENT

Management as a process: A process of employing human and physical resource to the accomplishment of pre- determined objectives of a firm.

Or

Is a process consisting of activities involved in the planning and controlling of performance to the attainment of stated objectives using human and other physical resources.

Or

Management is a process by which managers create, direct, maintain and operate organizations through systematic coordinated and cooperative human efforts.

Management as a group.

A group of personnel who perform different functions for the accomplishment of certain goals. These people are known as managers.

A manager: is a person who performs the managerial functions of planning, organizing staffing, directing, controlling and coordinating.

Management as a discipline: Is both a science and an art.

As a science: The knowledge and principles which managers use in managing is referred to as the field of management science.

As an art: The performance of managerial functions requires certain skills and tactics which are personal possession.

MANAGEMENT AS A SCIENCE

Management has a systematic body of knowledge.

- Management has concepts hypothesis, theories, experimentation and principles.
- Management principles are universally accepted among other characteristics of science discipline example.
- It should have a systematic body of knowledge including concept principles and theories.
- It should establish course and effect of relationship.
- It should have a method of scientific inquiry.
- Its principles should be verifiable.
- It should ensure predict results.
- It should have a universal application.

Management as an art

Art is bringing the desired result through application of knowledge and skills.

Note: Science seeks knowledge and art use knowledge to achieve results.

Art has the following features.

- It needs personal skills
- It signifies practical knowledge
- It help in achieving results
- It is creative in nature

Note: Every manager apply certain knowledge skills and personal creativity while dealing with people to achieve the desired results.

MANAGEMENT AS PROFESSION

To be judged as profession must have the following criteria

1. A body of knowledge: knowledge that can be learnt through illustrations for reasonable long time
2. Competent application: utilization of knowledge in solving complex and important problems.
3. Social responsibilities: Desire to serve others and the community
4. Community sanction: High community respect based upon society's recognition of the first three criteria
5. Self control: Established code of conduct enforced by professional membership

OBJECTIVES OF MANAGEMENT

The main objective of any business is to earn profit by providing wants and satisfying goods and services to customers

In order to attain that aim a firms management should fulfill the following

1. Produce and distribute goods to customers
2. Keep customers satisfied with good services and quality products
3. Build a team of knowledgeable competent workers who are well taken care and happy.
4. Achieve workers cooperation for the attainment of organization's goals
5. Maintain and achieve good relations with suppliers of raw- materials and finance so that production can continue
6. Build a favorable public image of the firm and its product
7. Use resources economically by avoiding wastage
8. Improve the welfare of people surrounding the firm by maintaining environment and provision of services

CHARACTERISTICS OF MANAGEMENT:

1. Management is milt-disciplinary

It takes the help of social sciences such as sociology, psychology and economics i.e much of management literature is the result of the association of those disciplines.

2. Management is a universal activity: The principles and practice of management are universal in use.
3. Management is activity based. The task of management is based upon a given productive based activity
4. Management makes things happen: managers focuses their attention and efforts in bringing about successful results i.e They known where to start, what to do to keep things moving.
5. Management is accomplished by with and through the efforts of others. It is the ability of the person in getting work accomplished through people at work

6. Management is an integrative process. Management is the integration of human and other resources that lead to effective performance.
7. Management is intangible. Management is unseen force, its presence is evidenced by the result of its efforts like adequate work output and good spirit of workers
8. Management is an art and a science. Managers use scientific and artistic way in dealing with the human and physical resources of a company.

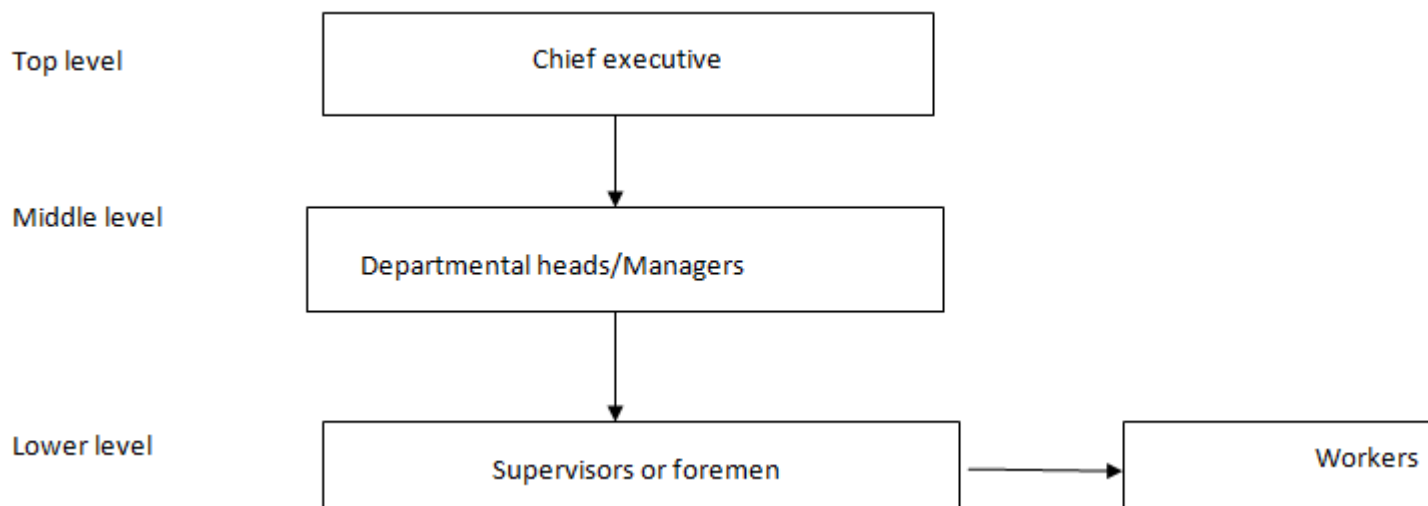
LEVELS OF MANAGEMENT

Refers to a line of democracy between various management positions in an organization

The number of levels increase when the size of the business and work force increase.

But there are generally three levels of management

1. Top management
2. Middle level management
3. Lower level or first line management



NOTE: Management is best studied into three groups:

1. Managerial qualities.

2. General principles of management.
3. Elements of management(functions of management).

MANAGERIAL QUALITIES

The following are qualities required by managerial personnel.

1. Physical. Includes health, vigor and appearance
2. Moral: willingness to accept responsibilities, initiative, loyalty and dignity
3. General education
4. Special knowledge: knowledge and skills to functions performed
5. Qualities of experience. Knowledge and skills arising from the work.

Managerial skills

All managers have similar skills in three important areas .

1. Conceptual skills: Ability to solve long term problems. It involves looking at organization problems from broad conceptual base and making decisions more consistent with organizational objectives.
2. Human skills: ability to work effectively, ensure interpersonal relations motivate and influence other to achieve organizational goals.
3. Technical skills: ability to use tools, apply specialized knowledge and manage processes.

PRINCIPLES OF MANAGEMENT

A principle is a fundamental statement of truth providing guide to the thought and action.

The management principles therefore enable the manager to approach problems systematically.

The principles serve as a guide for managerial activity. These principles include:

1. Division of work: To achieve efficiency, work must be divided for workers to specialize.
2. Authority and responsibility must be as par
 - i) Authority: is the right to give orders to subordinates.
 - ii) Responsibility: Duty which the subordinate is expected to perform by virtue of his position in the organization.
 - iii) Authority and responsibility co exist and they must go hand in hand.

3. Discipline: This implies obedience, respect of authority and observance of established rules and regulations
4. Unity of command: an employee should receive orders from one superior and only one superior at a time.
5. Unity of direction: There should be one head and one plan for a group of activities having the same objectives
6. Subordination of individual common interest or interest to general of the company i.e Constant supervision is necessary to prevent promotion of personal. Interest at the cost of the organization.
7. Remuneration of personnel: method of remuneration payable to personnel should be fair, reasonable and rewarding of effort.
8. Centralization: centralization of authority to the management. Centralization and decentralization is a matter of proportion. This proportion should be decided keeping in view the circumstance of the particular case.
9. Scalar chain: Chain of superiors ranging from the ultimate authority to the lowest rank. It is unbroken chain or line of command from the top to the bottom of the organization
10. Equity : There should be equity of treatment in dealing with subordinates and no discrimination.
11. Stability and tenure: This help to develop loyalty and attachment on the part of employees.
12. There must be spirit and coordination among members of an organization. Unity is strength and strength of the company lies in the cooperation and harmony in individual efforts.

MANAGERIAL FUNCTION OR ELEMENTS/FUNCTIONS OF MANAGEMENT

Elements of Management common to all broadly are grouped into the following

- i. Planning
- ii. Organizing
- iii. Staffing
- iv. Directing
- v. Coordinating
- vi. Controlling

Operative functions

- i. Production management.
- ii. Purchasing management.

iii. Marketing management.

iv. Financing management.

v. Personnel management.

1.PLANNING

Is deciding in advance what is to be done. It involves the selection of objectives policies procedures and programmes from among alternatives.

A Plan: is a per-determined course of action which helps to provide direction for members of a business organization.

Purpose of planning

1. Establish the goals of the organization.
2. Provide sense of security for managers and workers.
3. Establish a sense of direction future activities of the organization as a whole.
4. Coordinate activities in pursuit of objectives.
5. Enable a firm to respond to anticipated events.
6. Intervene and act positively in situations rather than react to them.
7. Synthesize and utilize data for the future use.
8. Reduce the gap between objectives and performance
9. Handle changes.
10. Review objects and determine priorities.

Requirement/Principles of a good plan

1. The plan should be simple:Simple to be understood and be worked upon by individuals and groups in an organization.
2. The plan should be specific rather than general: objectives and goals should be clearly stated and defined and the means of carrying out the plan should be specifically detailed.
3. The plan should be logical and practical: the facts and figure used should appeal and make sense to those who use it.
4. The plan should be flexible in nature: the plan should accommodate changes if necessary .
5. The plan should be complete and integrated: The plan must be comprehensive enough to cover all actions expected from the sections and individuals
6. The plan is integrated when the various administrative sub plans are engaged that the whole organization operate efficiently.

BENEFITS OF PLANNING:-

Sound planning is the foundation of efficient management because it results the following

Advantages:-

1. Emphasis on objectives:- The whole planning process is based and directed towards achieving organization objectives.
2. Minimizes uncertainty:- Planning is for future which anticipate future events
3. Facilitates control: Plan lay down objectives and standards of performance which are essential for performance control. Control is the act of checking performance against the agreed standard.
4. Improves coordination: Planning ensures unity of direction towards organizational goals. Coordination: is the unifying integrating and harmonizing the activities of different departments and individuals.
5. Planning secures economy: Since planning leads to good location of resources thus lead to optimum utilization of resources
6. Encourages Innovation: Planning is basically a deciding function. It therefore helps in innovation and creative thinking to be put into use because new ideas must be accommodated and applied to achieve results.
7. Improve competitive strength because planning means looking a head into the futures therefore an organization give competitive advantage to the enterprise that do not have planning.

LIMITATIONS OF PLANNING

Planning may fall short of it objectives due:-

1. Expensive process: Money and effort should be spent in forecasting collection of information evaluation of alternatives i.e. Services of experts may be necessary in order to have a good plan.
2. Non –availability of data: There are may be lack of enough historical and current data which plans may be based.
3. In-ability of planners: If planners fails to use available information for the purpose of planning he may not be able to produce a good plan.
4. Inaccuracy: Plan is based on certain premises relating to forecasts about the future this may fall short and hinder prediction of changes in environment performance of objectives.
5. Time consuming:- Planning require much time. Therefore not suitable for sudden/immediate action.
6. Psychological: Planning often implies changes which the executives may like to ignore hoping changes may affect their position.
7. External limitation: Changes in business environment may restrict free planning e.g: Changes in technology, Government policies.

CHARACTERISTICS OF PLANNING

1. Planning is an intellectual activity involved vision and foresightedness to decide the things to be due in future.
2. Planning is basic to all management function:- All other managerial functions come after a firm has plans.
3. Planning is related to objectives: An efficient plan details out the methods to achieve the objectives with minimum cost and consequences.

4. Planning is a continuous process. The process of production and distribution of plans is continuously implemented and prepared. Plans have to be reviewed or modified to suit the business environment.
5. Plan is selective in nature:- Planning involves decision making or choosing of the best alternatives out of the many available alternatives.

STEPS IN PLANNING

A systematic approach to plan involves the following steps:-

1. Definition and description of objectives or problems: Need for planning arises for solving problems or exploiting an opportunity that may arise in the future. I.e the problem to be solved or opportunity to be utilized should be clearly defined with the help of policies, programmes, procedures, rules, budgets and strategies.
2. Determination of planning premises. Planning premisses are the assumption about the future they provide boundaries in which plans will be implemented.
 - i. Tangible and intangible premises: Assumptions which can be expressed in quantitative terms e.g: capital investment, time available (tangible) and qualitative in nature e.g:- Employees morale, goodwill of the business (Intangible premises)
 - ii. Internal and External premises. Assumptions about internal working condition of the business like capital and machine (internal premises) and assumptions factors outside the business like in technology, population growth, government policy (external premises).
 - iii. Controllable and Uncontrollable premises. Controllable premises are policies and programmes of the organization which can be fully regulated by the management. e.g: Price policy.
 - iv. Discovering and developing alternative: Collect and analyze all relevant information so as to identify all possible alternatives.
 - v. Choose among the alternatives after detailed cost and benefit analysis.
 - vi. Distribution of a plans.
 - vii. Followup, make changes in plans.

2. STAFFING

Is the managerial function that involves the determination of manpower requirements of the business and providing it with the adequate competent people at all levels.

Personnel Management: Is the planning, Organizing, Compensation, integration and maintenance of people for the purpose of contributing to organizational, personal and societal goals.

A personnel Manager therefore performs the staffing functions of manpower planning, recruitment selection, training, performance appraisal and compensation.

NATURE/SCOPE OR STAFFING

Staffing is a function which is done by Managers at all levels in the business organization. The scope of staffing is as follows

- i) Manpower planning. Determining the number and kind of personal required in various position in he organization.
- ii) Recruitment, selection and placement of personnel.
- iii) Training and development of employees.
- iv) Appraisal of performance of employees and taking corrective measures (steps) e.g: transfer from one job to another.
- v) Remuneration of employees.
- vi) Motivation of workforce by providing financial incentives and promotion.

IMPORTANCE OF STAFFING

The importance of staffing has increased because of the following factors:

- I. Advanced technology: Right type of workers for technology have to be identified and employed.
- II. Increasing size of organization. Large firms require the employment of thousands of workers.
- III. Long –range needs for manpower. Determination of manpower requirements in advance, develop existing personnel.
- IV. Staffing spend money so management must ensure staffing which will not lead to high cost unnecessarily, i.e ensure staffing function is done in an efficient manner
- V. Motivation: Workers are to be motivated properly through financial and non-financial incentives.

3. MANPOWER PLANNING : Is the process of determining and assuring that the organization have adequate number of qualified personnel.

SIGNIFICANCE OF MANPOWER PLANNING

Manpower planning is essential activity due to the following:

1. Shortage of manpower will be revealed and corrective steps can be taken in time.
2. Manpower forecasting provides a base for recruitment, transfer and training of employees.
3. It reduces cost by avoiding over staffing.
4. It helps to identify talents available in the organization such that training for promotion can be given to the talented employees.
5. It helps in the growth and diversification of business i.e. Suitable manpower is made available to handle new jobs.

STEPS IN MANPOWER PLANING:

1. Current manpower inventory: Analysis of current manpower supply should be undertaken by departments or by occupation.

2. Manpower forecasting. Management has to forecast manpower requirement. The following factors have to be considered.

- a) Expansion plans of business.
- b) Nature of technology to be adopted.
- c) Retirement schedule of employees.
- d) Expected separation of employees.

3. Employment programmes. Long-term employment program must be set out to deal with forecast difficult of manpower. It includes the steps like recruitment, selection, placement, performance appraisal, transfer and promotion.

4. Training and development program. Identify training needs in the organization because employees need appropriate training so that they may learn the required skills.

4. RECRUITMENT: Is the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

The process of recruitment involve

- i. Identification of different sources of supply of labor.
- ii. Assessing their validity
- iii. Choosing the most suitable sources

- iv. Inviting applications from the prospective candidates.

SOURCES OF RECRUITMENT: we have internal and external sources of recruitment.

External sources of recruitment: The commonly used external sources of recruitment are.

- a) Direct employment or recruitment at factory gate. This is done by placing a notice on the notice board of the organization specifying the details of the jobs available.

Advantages of external source of recruitment:

- I. It involves no advertising costs.
- II. It is the cheapest methods to fill up casual vacancies.
- III. It helps to fill the vacancies or even get help if there is an emergency or rush work.

- b) Unsolicited application: Applications received not in response to any advertisement but from individual who are looking for jobs. Firms can make use of these applications to get workers.

- c) Advertisements: These are placed in newspapers or trade and professional journals are used when qualified or experienced personnel are required by firms.

Advantages

- I. More information about the firm is given, job description and job specification also made available.
- II. It allows self screening by the prospective candidates.
- III. Give a wider range of candidates to choose from.

Disadvantages

- I. It is very costly due to advertising cost.
 - II. It gives in flood of responses end many times from unsuitable candidates.
- d) Employment agencies or Bureau. Employment agencies bring the job givers in contact with job seekers. They provide a national wide services attempting to match personnel demand and supply.

5. SELECTION: This involves giving of various test to the candidates/intending employees and interviewing them in order to select the suitable candidates.

Steps in staff selection/procedures:

1. Preliminary interview.
2. Application blank.
3. Employment tests.
4. Employment interview.
5. Physical examination.
6. Checking with references.
7. Final selection.
8. Induction or orientation.

1.PRELIMINARY INTERVIEW:- It consists of exchanging of information with respect to the organization interest in hiring and the candidate inquiry.It is performed in order to screen and identify those who are suitable or to reduce the number of those who should move to the next step.

2.Application blank: These are forms used to obtain information in the applicant's own handwriting sufficiently to identify him and make decision regarding suitability for employment.

3.Employment test: They are given to all candidates in order to know the level of each one's ability and knowledge his interest and aptitudes. This will require the the use of intelligence test, aptitude personality test.

4.Individual employment interview –Much information which could not be obtained from application blank and employment tests are easily revealed here.

MAIN PURPOSE OF EMPLOYMENT INTERVIEW

- I. To find suitability of the candidates (testing the qualities and capabilities of candidates)
- II. To seek more information about the candidates.
- III. To give the candidate the accurate picture of the job with details of the terms and conditions and some ideas of organization policies

Limitations of employment interview

1. Interview is an expensive device
2. Interview can test only personality the candidate and not his skills and ability for the job.
3. Interviewers may be not experts and may be not able to extract maximum information from the candidates
4. The device depends too much on personal judgement of the interviewers which may not always be accurate
5. Prejudice may affect results of the interview.

5. Checking references: Prior to final selection, the employer normally makes an investigation on the references supplied by the applicants and undertakes more thorough search on the candidate past employment, education, personal reputation, police records etc.

6. Physical/medical/examination. Pre-employment physical examination or medical test of the candidate is an important step in the selection process. Physical/Medical examination has the following objectives.

- I. It helps to ascertain the applicants physical capabilities to meet the job requirements.
- II. It help to protect the organization against the unwanted claims under workers compensation law or against law suits for damages.
- III. It help to prevent communicable diseases from entering the organization.

NOTE: A proper medical examination will ensure higher standard of health and physical fitness of the employees and will reduce the rates of accident and absenteeism.

7. FINAL SELECTION

A Candidate who has cleared all steps, he is finally appointed by issuing an appointment letter. The letter will give the date by which the candidate has to join the organization term and conditions of employment, nature of job and pay scale.

8. INDUCTION OR ORIENTATION: This is concerned with introducing a new employee to the organization its procedures, rules and regulations and the people with whom he will interact in doing his job like supervisors and fellow employees. He also given orientation training before he is asked to occupy a particular position e.g: Being introduced an organization software programme.

6. TRAINING: This is an organized activity of increasing the knowledge and skills of people for a definite purpose. Training makes newly recruited employees fully productive in the minimum of time.

NOTE Old workers may also attend refresher courses to update their knowledge and skills.

Advantages of training to an organization

1. Less learning period: Systematic training programmes helps to reduce the learning time to reach the acceptable level of performance i.e Employees need not to learn by trial and error or by observing others and waste time.
2. Better performance: Training increase knowledge and skills of employees leads to better performance.
3. Uniformity of procedure: With the help of training methods and standards can be made available to all employees.
4. Economy of materials and equipments: Trained personnel will make better use and economical use of materials and equipments.
5. Fill manpower needs. Training can be used to obtain manpower to fill the vacancies.
6. Less supervision: Training reduces the need of detailed and constant supervision.
7. Good human relations: With the help of training dissatisfaction complaints, absenteeism can be reduced among employees.

Advantages of training to an employee

- I. New skills: Employees acquires new skills, knowledge with will help them to improve their career.
- II. High productivity: Efficiency of the workers increases as a result of training.
- III. Less accidents: Trained workers can handle equipments carefully and able to use various safety devices.
- IV. Opportunity for promotion: After training workers can apply for higher job positions.
- V. Increased mobility: Trained employees can shift from one organization to another is order to advance there career or greener pastors.
- VI. High morale: Trained employees know well their jobs and have greater job satisfaction this increases their morale.

TYPES OF TRAINING PROGRAMMES

1. **Induction or orientation training:** Training concerned withe the problem of introducing or orienting a new employee to the organization and its procedures rules and regulation.

Objectives of Induction training

- a) To build up new employees confidence in the organization and in himself so that he may become an efficient employee.
 - b) To give a new employee the information he needs like location of rooms cafeteria and other facilities.
 - c) To promote a feeling of belonging and loyalty to the organization among new comers.
 - d) To ensure that new employee not form false impression regarding the new place of work because first impression is the last impression.
2. **Refresher training or retraining:** The basic purpose of refresher training is for existing workforce acquire the latest methods of performing their jobs and improve their efficiency.

Importance of refresher training

- a) New technology is associated with new work methods and job requirements i.e Existing workers need to learn new methods to use new technology in doing their jobs.
 - b) Workers require training to bring them up to date with the knowledge and skills and to learn what they have forgotten.
 - c) New jobs which are created due to change in demand are to be learnt by existing employees.
3. **Apprenticeship training:** This involves imparting knowledge and skills in doing a craft or series of related jobs.
- This training combines on job training and class-room instructions in particular subjects.
 - The trainee is placed under supervision of experienced person who teaches him the necessary skills and observes his performance
4. **Internship training:** This is where vocational Institutes enter into arrangement with the business organization for providing practical knowledge to its students by gaining actual work experience. Internship training is usually meant for vocations where advance theoretically knowledge is to be backed up by practical experience on the job. E.g: Medical students are sent to big hospitals to get practical knowledge OR Engineers students are sent to big Industries.

METHODS OF TRAINING

1. On job training: Under this method, the worker is given training at work place by his supervisor.
 - This method is practical oriental.
 - It facilitate learning by doing.
 - It permit the trainee to learn at the actual equipments and in the environment of the job.
2. Vestibule training: This method is used when a large number of workers need to be trained and where mistakes are likely to occur which will disturb production schedules.
 - This training method is used when it is not possible to do on job training.
 - Training job is entrusted to the qualified instructors.
 - A vestibule school is an attempt to create environment as nearly as possible to the actual work condition of the work place.

3. Special courses: These are conducted by the line managers of the organization or specialists from the vocational educational institutes.

- Many firms follow the practice of sending selected employees to training and development programmes run by various educational institutions.

REMUNERATION OF WORKERS

A firm must offer good wages attracting competent employees in the organization.

- Workers must be adequately remunerated to support their families and raise their standard of living.
- Compensation to workers will vary depending upon the nature of the job skills required risk involved, working conditions etc.

WAGE AND SALARY

WAGE: The term used to denote remuneration to workers doing manual or physical work. Wages are given to compensate unskilled workers for their services provided to the organization. Wages may be based on hourly daily, weekly or even monthly basis.

SALARY: This refers to monthly compensation to office employed foremen, Managers, Professionals and technical staff.

FACTORS AFFECTING WAGES

Wages paid to worker depend upon the following factors:

1. Demand for and supply of labor.
2. Ability of employers to pay.
3. Cost of living.
4. Productivity i.e the higher the productivity the higher payment.
5. Collective bargaining (trade unions).
6. Prevailing wage rates or wages paid for similar occupations in the industry.
7. The economy as a whole.
8. State regulations. Laws on minimum wage, hours of work. These laws are enacted to bring about a measure of fairness.

METHODS SYSTEMS OF WAGE PAYMENT

- a) Those based on the time worked. i.e Time rate wage system.
- b) Those based on quantity produced. i.e Piece rate wage system.

- c) Those which combine the features of both time and piece wages.
- d) Bonus wage system.

TIME	WAGE	METHOD
<p>A worker is paid for the time spent on the job. I.e the worker is paid after the time fixed for work is completed irrespective of output or completion of the work. Wages can be determined by the following formula.</p> <p>wages = no of hours worked x Rate per hour</p>		

Advantages of time wages system

1. It is simple to calculate the amount earned and to measure the time spent on the job.
2. A worker knows in advance what will be his total pay at the end of the period.
3. Equality of wages: All workers doing the same job get the same rate, therefore sense of equality prevails.
4. Better quality: The quality of work output is more important than quantity.
5. Less wastage:- Workers need not speed up their operations to earn higher wages, therefore there will be less wastage of materials.
6. This method ensure stable income to all the employees.

Disadvantages

1. Inefficiency: No link between wages and productivity.
2. Lack of motivation: It makes no difference between an efficient worker and lazy one since both are treated the same.
3. Increased supervision: Leads to lower productivity unless strictly supervision is provided.

PIECE WAGE SYSTEM

Under this system, the output of work is the basis of payment. The rate of wages is determined per unit of output and is fixed in advance.

- An efficient worker will earn higher wages as compared to an inefficient worker.
- Wages can be determined by the following formulae

$$\text{Wages} = \text{No of units produced} \times \text{rate per unit}$$

Advantages of piece wage system

1. Incentive for higher production i.e encourages workers to produce more.
2. Fairness: The system ensures fairness by correlating wages and productivity.
3. Costing: Cost of production become easier as wages are a constant factor of the units of output.
4. Lesser supervision.

5. Personnel decision: Under this system decision can be made quickly about lazy workers e.g: transfer of workers.
6. Economy: Total cost of output comes down with larger output.

Disadvantages (Drawbacks) Of piece wage system

1. Low quality: Due to high emphasis on the quantity of production may lower the quality of products.
2. Insecurity to workers: Workers feel insecure due to the fact that they would get lower wages during the period when their efficiency is low.
3. Problem in industrial relations: The relationship between employees and management if lower output is caused by management negligence.
4. More administrative work: Daily records of production for each worker.

7. MOTIVATION. Is the process of stimulating people to take the desired course of action.

- It is the act of inspiring subordinates to work hard, so that to achieve the goals of the organization
- Needs wants are used to motivate workers.

Features of Motivation

1. Psychological concept: It is an internal feeling.
2. A person can not be motivated in part. I.e motivation is total and not piece-meal.
3. Motivation is a continuous process because human needs are ever –growing and never fully satisfied.
4. Motivation directly influence the behavior and performance of a person.
5. Motivation is a task of every manager because every manager has to inspire his subordinate to complete their jobs efficiently.
6. Motivation may be positive or negative.

(a)Positive motivation:- This involves inspiring people to work better and appreciating work that is well done by offering rewards.

(b)Negative motivation:- This involves forcing people to work by holding out threats or punishment.

NEEDS

These are requirements which are necessary for human existence. e.g food. Moreover only unsatisfied needs motivate a person i.e In order to motivate a person it is necessary to understand and satisfy their needs

CLASSIFICATION OF HUMAN NEEDS

Abraham Maslow classified human needs into five categories

1. Physiological needs/survival needs: These are basic needs which should be satisfied before all other needs e.g: Food, air.
2. Safety or security needs: These include physical safety against danger, economic security against old age, sickness e.g shelter, clothing, health, Insurance, pension security.
3. Social needs: A man is social in nature. He needs love, affection, sense of belonging, association, friendship. Therefore an Individual creates family, relatives and friends.
4. Ego or Esteem needs: Self esteem means self confidence, self respects, Esteem of others means power prestige, Independence, achievement, and recognition.
5. Self-actualization needs: Desire to be come what one can become. It involves self fulfillment and maximum possible degree of achievement. These needs are Psychological and infinite i.e. An individual is never satisfied interns of achievement because there is no limit to progress.

INCENTIVES

An incentive is inducement which stimulates a person to act in a desired direction.

- An Incentive has a motivational power because it helps to satisfy a needs
- Incentives are classified into monetary and non-monetary Incentives.

MONETARY INCENTIVES. These are financial incentives

- They involve payment of reward in terms of money e.g: Cash awards.
- Money is a means of satisfying physiological, safety and social needs.
- Money is considered as a symbol of power, prestige and status.

NOTE: Employees do not work only for money, they need recognition, freedom, status, job satisfaction etc.

NON-MONETARY INCENTIVES

These are non – financial because they do not involve the flow of money and do not add to the income of the recipient

- They include challenging job, competitions, appreciation of work done, social recognition, opportunity for growth, participation in decision making.
- These incentives are more helpful in satisfying higher level than physiological needs and safety needs.

Different between monetary incentive and non –monetary incentives

1. Monetary incentives payment of money whereas non-monetary incentives do not involve use of money.

2. Monetary incentives are tangible i.e Visible and measurable while non –monetary incentive are invisible and non-measurable.
3. Monetary incentives are used to satisfy lower level needs e.g: food, clothing, shelter while non monetary incentives are used to satisfy higher level needs like ego and self actualization.
4. Monetary incentives are used to motivate workers while non-monetary incentives are used to motivate managerial personnel and can be used to supplement and support the monetary incentives.

8.COORDINATION

Is an orderly arrangement of group efforts to provide unity of action in the pursuit of a common goal.

- It involves unifying, integrating harmonizing the activities of different departments and individuals for the achievement of common goals or objectives.

ESSENTIALS OF EFFECTIVE COORDINATION

To achieve effective coordination, the following things must be observed

1. Clearly defined goals. Every individual must understand the overall objectives and contribution of his job to the efficiency of the business.
2. Comprehensive policies and programmes. There should be proper policies, programmes and procedures to create uniformity of actions.
3. Clear line of authority: clear authority relationships facilitates mutual cooperation which is essential for effective coordination.
4. Effective communication: Formal and Informal communication between members should be encouraged.

PRINCIPLES OF COORDINATION

1. Coordination must not be directed in autocratic manner but rather encouraged in democratic manner.
2. It should operate vertically as well as horizontally and effected at the most appropriate time.
3. It should be effected by direct contact between persons as immediately.
4. It must commence at the earliest stage of planning and policy making.
5. It must be continuous process.

TOOLS FOR ACHIEVING COORDINATION

- A. **Committees:** These the coordination because they.

- I. Pool resources to solve problem.
 - II. Coordinating conflicting functions.
 - III. Ensures prior consultation hence lead to greater acceptance of decisions.
 - IV. Enable executives to be trained.
- B. **Staff meetings:** These are helpful because they:
- I. Give the sense of unity to the workers of the organization.
 - II. Provide opportunity to subordinates to question superiors and provide forum for discussion.
 - III. Inform staff of any new development and problems.
- C. **Conferences:-** These are methods of making group discussion. They are free discussion and help company matters. These are usually organized for managers and supervisor.
- D. **Programmes:** These are Instruments of coordination which help enables work to be performed in a systematic way. They also give an opportunity to compare results with standard and action taken where necessary. Programmes communicate decisions and hence allow delegation.

9.CONTROLLING

Is the measuring and correcting of activities of subordinates ensure that events conform to plans. Or is the process of checking actual performance against the agreed standards or plans with a view to ensure adequate progress or satisfactory performance.

OBJECTIVES OF CONTROLLING

An effective system of control helps to achieve the following

- 1. Determining the progress of work.
- 2. Detecting deviations from the planned standards.
- 3. Investigating the causes of deviations.
- 4. Taking the corrective measures to check deviations.
- 5. Avoid loss due to faulty production.

FEATURES/CHARACTERISTICS OF CONTROL

- 1. It is performed by all managers of the organization
- 2. Dynamic process: Review of performance ensuring results and taking corrective measures to bring life to the organization.
- 3. Continuous process.

4. Formal looking: It is preventive and relatives to future providing checks to individuals and the organization.
5. Action oriented: A good system of control facilitates timely action so that there is minimum waste of time and energy.

BENEFITS OF CONTROL

An effective control field the following advantages:-

- a) Control provides the basis for future action.
- b) An effective control system facilitates decentralization of authority.
- c) Control and planning go hand in hand. Inter – relationship between planning and control .
- d) Control facilitates decisions taking.
- e) The existence of control system has a positive impact on behavior of the employees.
- f) Control helps in coordination of the activities of the various departments of the enterprise.

LIMITATIONS OF CONTROL

1. Business organizations can not control the external factors such as government policies and technological changes.
2. Control is an expensive process because sufficient attention has to be paid to observe the performance of the subordinates this require time and expenditure
3. Control loses its effectiveness when standards of performance can not be defined in quantitative terms e.g: It is difficult to measure employee morale.
4. The effectiveness of control depend on its acceptance by the subordinates, if subordinates resist if they feel that it will reduce their freedom.

Features of a good control system

A good control system has the following features

1. Emphasis on objectives. Standards of performance should base on the objectives. If objectives are not clear good results will not be achieved
2. Suitability: Control should be tailored to suit the need of the organization.
3. Simplicity: Simple to understand employees must know what is expected (their performance).
4. Flexibility: It should be able accommodate changes according to the circumstances i.e Control procedures must be changed if it can't achieve its basic purpose.
5. Forward looking: Control system should be directed forward the future.

Qualities of a good standard of control

1. Simple and easy to understand.
2. Should be cable of being achieved with reasonable amount of effort and time.
3. Should be flexible not rigid they should be capable of being modified whenever necessary.
4. Should be consistent with the overall objectives of the organization.
5. Should be set scientifically i.e after a time studies.
6. If possible standards. Should be expressed in quantitative terms.
7. Should be set after consultation with people who are going to attain them.

TOOLS OF CONTROL

The common used tools are

1. Written report: Each manager prepares report on the performance of his subordinates and submit the report to the general manager.
2. Budgets: Budgets pre-determine the extent of expenditure which can't be exceeded i.e budget control expenditure.
3. Key ratios: Pre-determined ratio of performance that must be achieved by organization. The common ratio are the return on investment (ROI), ratios between current assets and current liabilities, debt-equity ratio, etc
4. Accounting techniques: Financial and cost accounting techniques are useful in controlling the use of finances of the organization.
5. Internal audit: offer independent control on the use of financial resources and human resources. Periodic checks on the accounting procedures is the work of internal audit.
6. Break –even analysis: This useful in determining the volume of sales at which total costs are fully covered and beyond which profit will be earned.This help the firm in guiding sales and controlling costs.

CONTROL PROCESS :-

Control process consists of the following steps

1. Establishment of standards.A standard: Is the criterion against which actual performance can be compared.
 - I. Physical standards i.e those expressed in physical terms eg no of units hours.
 - II. Monetary standards : Those expressed in monetary terms eg sales revenue, expenses
2. Measurement of performance: Actual performance is measured for individuals, groups and then comparing with standards already set.
3. Investigate deviations: Comparing performance will reveal deviations from standards, then investigate the causes of deviation.
4. Taking corrective actions: Taking appropriate actions so that deviations may not occur again and objectives of organization can be achieved.

DIRECTING AND SUPERVISION

Is the management process which activates the members of the organization to work efficiently and effectively for the attainment of the desired goals.

It is concerned with influencing, guiding, supervising and inspiring the subordinates to accomplish pre – determined objectives

FEATURES OF DIRECTION

1. Management functions: It is through direction that management initiates actions in the organization.
2. Continuing function: A manager must continuously guide inspire and supervise subordinates to get things done.
3. Result oriented function: direction converts plans into performance and breath life into the organization.
4. Pervasive function: Direction is the responsibility of each and every manager and it is performed at all levels of management.
5. Linking function: It translates plans into performance and thereby provides the material for control.
6. Human factor: Direction is concerned with human behavior. It is interpersonal aspect of management.

Importance of direction

Effective direction provides the following advantages:

1. Initiate action: Planning, Organizing and staffing are merely preparation for doing work.
 - It is directing which starts actual work to convert plans into results
2. Improve efficiency: A manager persuades his subordinates to work to the best of his ability through direction.
3. Ensures coordination: Managers use various techniques of direction to integrate the efforts of different individuals in the organization.
4. Facilitates changes: A manager can persuade her subordinates to accept and carry out changes from time to time.
5. Helps stability and growth: Efficient direction helps an enterprise to survive and grow.

ELEMENTS OF DIRECTION

Direction consists of the following elements:

- I. Issuing orders and instructions to tell them what to do and how to do it.
- II. Supervising the subordinates to ensure that they are doing their jobs properly.
- III. Motivating the subordinates in order to persuade them to work hard to the accomplishment of organizational objectives.

- IV. Providing leadership (guide) and advise subordinates.
- V. Communicating with people to remain in constant touch with them.

NOTE Orders, supervision, motivation, leadership and communicating are elements of direction.

- A. Issuing orders and instructions an order: is a command by a superior requiring a subordinate to do something. Its purpose is to initiate or modify action.
 - Order can be oral or written depending on the situation.

Features of a good order

- a) Order should be simple and easily understandable by the subordinates.
- b) The order should be consistent with the objectives and policies of the organization.
- c) The orders should be reasonable and attainable.
- d) Orders should be in a language and tone that is not offensive to the subordinates.
- e) The orders should specify the time limit within which it should be implemented.
- f) The orders should preferably be in writing.

Supervision

Is defined as seeing the subordinates at work from above to ensure that they are working according to plans and policies of the organization.

- Supervision involves instructing guiding and assisting people towards better performance.
- A supervisor is also known as foreman, Gang-man charge-man, Overseer, Section officer or super intendent.

Qualities of a good supervisor

A supervisor to be effective in his job he should posses the following attributes

1. Technical competence: Have a complete knowledge of the job supervised by him.
2. Managerial qualities
3. Leadership skills:- to be able to guide subordinates and promote harmony relations among them.
4. Skill in instructing: a good supervisor should be able to communicate clearly with subordinates. End issue them orders without difficulty.
5. Human orientation: should treat his subordinates as human being and deal with them accordingly to achieve good relation.
6. Decision making skills: should be competent to take managerial decisions.

- He should be mentally alert and have a thorough knowledge of the working and surrounding environment.

FUNCTIONS OF A SUPERVISOR

1. Planning the work: Determines the work schedule to ensure steady flow of work.
 - He assigns work to different workers according to their ability
 - He makes arrangement for raw materials, machines, tools and equipment
2. Issuing orders: He tells the worker what to do and how to do.
3. Providing leadership: Providing necessary guidance. He explains orders and instructions and advises workers to do work assigned to them.
4. Motivating workers: Inspiring the workers for higher productivity and better quality
5. Enforcing discipline: Enforcing rules and regulations of the organization to maintain discipline among workers.
6. Handling grievances: Listen to grievances and complaints to workers and takes all possible steps to remove them.
7. Controlling output: Keeps check on the quantity and quality of output. He takes necessary actions to ensure that production takes place according to pre-determined standards.
8. Ensuring safety: Ensures that workers use safety device. He carries out regular inspection to ensure that all machines and equipments are in proper condition.
9. Maintaining conditions of work:- Ensures that working conditions are healthy. He suggests improvements in lighting, ventilation, cleanliness to top management.
10. Preserving records: Supervisor keeps records of output, attendance of each worker. He supplies necessary information on output, costs to the top management.

Leadership

Is the ability to persuade/guide others to meet objectives.

A leader: is the one who guide and directs other people. A leader gives efforts of his followers a direction and purpose by influencing their behavior

Qualities of a good leader

- a) Intelligence: Mental ability to think scientifically and analyze accurately the problems.
- b) Physical features: Physical characteristics and level of maturity.

- c) Emotional feature: He should possess a high level of emotional stability and cool temperament. He needs a high degree of tolerance and social maturity.
- d) Vision and foresight: able to visualize event in advance. He should have a high degree of imagination and determination.
- e) Inner motivation: A leader must have a strong motivation to accomplish something. To initiate suitable action in proper time.
- f) Acceptance of responsibility: He must be prepared to shoulder responsibility. Be responsible for any steps he takes.
- g) Open mind (flexibility): A leader should be ready to absorb and adopt new ideas as may be demanded by the situation.
- h) Self confidence: he has confidence in himself whenever he initiates any course of action.
- i) Human relations attitude: A leader has to develop social understanding with other people.

Functions of leadership

A leader performs the following functions

1. Determination of goals: He act as a guide to the goals and policies.
2. Organization: A good leader helps in structuring the organization on scientific lines with the view of making its various components operate efficiently.
3. Coordination:- A leader reconciles the goals of the individuals with the the organizational goals and creates a community of interest.
4. Representation: A leader is a representative of his group.
5. Providing guidance: He is available for advice whenever subordinate faces any problem.
6. Motivation.

LEADERSHIP STYLES

There are 3 important leadership styles.

1. AUTOCRATIC (AUTHORITARIAN) LEADER

Autocratic leader gives orders which he insists must be obeyed. He determines policies for the group without consulting them. He simply tells the group what steps they should take criticism on his own initiative and he insist to be listen by the group for most of the time.

2. DEMOCRATIC (PARTICIPATIVE) LEADER

Is a leader who gives orders after consulting the group.

- He sees to it that policies are worked out in group discussion and with the acceptance of the group.
- Participative leadership increases the acceptance of management, ideas and reduces resistance to changes.
- It increases the workers morale.
- It lead to reduction in number of grievances of the workers.

3. LAISSEZ FAIRE OR FREE REIN LEADER

A free rein leader leaves the group entirely to itself.

- He avoids using power, he largely depends upon the group to establish its own goals and work out its own problem.
- Group members work themselves and provide their own motivation.
- The leader exists as a contact man with the outsider to bring for his group the information and resources it need to accomplish its job.

OTHER LEADERSHIP STYLES

- I. Task centered leader: A leader here is primarily concerned with performance of assigned task using standards and methods.
 - He believes in getting results by using better methods, keeping people constantly busy, using rewards and punishment. He is authoritarian in nature.
- II. Employee centered leader: Is a leader who helps his subordinates in solving their problems.
 - He gives them greater degree of freedom and allow them to participate in the decision making process.
 - He is democratic in nature .

NOTE: Task centered and employee centered are not two opposite ends, generally, managers have both in different degrees depending on the task to be performed.

THE BUSINESS OFFICE

Definition of an office

An office is a place, a room or a building where clerical activities of the business are carried out so as to provide control, direction and management of an enterprise.

IMPORTANCE OF THE BUSINESS OFFICE FOR MODERN COMMERCE

1. Office is the concrete proof of the existence of a commercial enterprise. Commercial office and its branches are identified with the business they transact. In case of banking and insurance enterprises, office is the only visible embodiment of the business which is carried on".
2. It is a place where plans for the business are prepared and policies are formed. A trading concern has to plan ahead its purchases, sales campaigns, financial resources, etc keeping in mind the trends and tendencies in the markets. Specialized personnel are appointed to work out the plans they prepare appropriate plans for the guidance of executive authorities in the office. On the basis of plans, the policies are framed by the administrative heads of the office. These activities of the office are fundamental to the prosperity of the business.
3. It is through office that the administrative policies of the business are executed. Different departments are set up to put into effect the policies decided earlier. Office is constituted by the operative group of executive personnel whose function is to implement the business plans and policies laid down by the higher administrative authorities. Progress and prosperity of a business enterprise is preconditioned by effective managerial control. This managerial control is exercised through office organization.
4. Correspondence which is a constructive force in modern business is one of the main functions of business office. Incoming letters are handled through the medium of office. Incoming letters are forwarded to the concerned departments for prompt and suitable replies. Business office acts like the clearing house of correspondence.
5. Business office is storehouse of record. Incoming letters are filed for future reference. Similarly copies of outgoing letters are for the purpose of records. Trading returns, financial materials are also filed for ready reference. Business office thus preserves records intact and makes them available as and when required. Thus a modern office is the fountain-head of planning, control, co-ordination, communication and records.

BASIC FUNCTIONS OF AN OFFICE

The following are the basic functions of an office

1. It receives information from internal and external sources.

The office informations are obtained by ways of letters, telephone orders invoices and reports of various activities of the firm from various sources.

2. Recording information.

The office keeps information in relevant records eg files, registers books and references required by law. Required information is essential for management to make decisions when required.

3. Preparing and arranging information.

Preparing such information as invoices, statistical statements, balance sheet, reports and visual and aids like graphs, pie chart etc. Information is arranged in such a way it is useful to the management.

4. Protecting records.

The office through different departments should keep and protecting its records for benefit of the firm or an organization. Information is secured for confidential purposes eg from competitors.

5. Communication.

The information received or prepared in the office is communicated to the relevant parties concerned verbally or in writing to such matters as orders for materials to suppliers, estimates to customers and instructions to departments issued on behalf of the management.

ADMINISTRATIVE FUNCTIONS

(i) Management functions

Like planning, Organizing, staffing, directing, communicating etc.

(ii) Personal functions

The office assists personnel department in personnel related matters.

(iii) Safeguarding the assets. To take care the assets of the business.

(iv) Public relations

To keep good relations with the general public.

(v) Planning schemes and policies

The office assists in planning schemes and policies through collecting and processing information.

FACTORS CONTRIBUTING TO THE GROWTH OF OFFICE WORK

Due to the expansion of economic activities the work has been increased manifold. The following factors have contributed to the growth of office work

(i) The management needs proper and timely information on all aspects of business operations in order to arrive at intelligent decision- making.

(ii) When the business grows office work also grows proportionately.

(iii) The work concerned either the preparation of returns to government, financial statements, dealing with employees, etc increase office work.

(iv) With increase of service activities such as accounting, banking, advertising, marketing, insurance damages, etc. the proper work has increased tremendously (very great).

(v) The importance of office in relation to customers is of great significance. Office act as the channel that links the business organization with its customers.

ACTIVITIES OF MODERN OFFICE

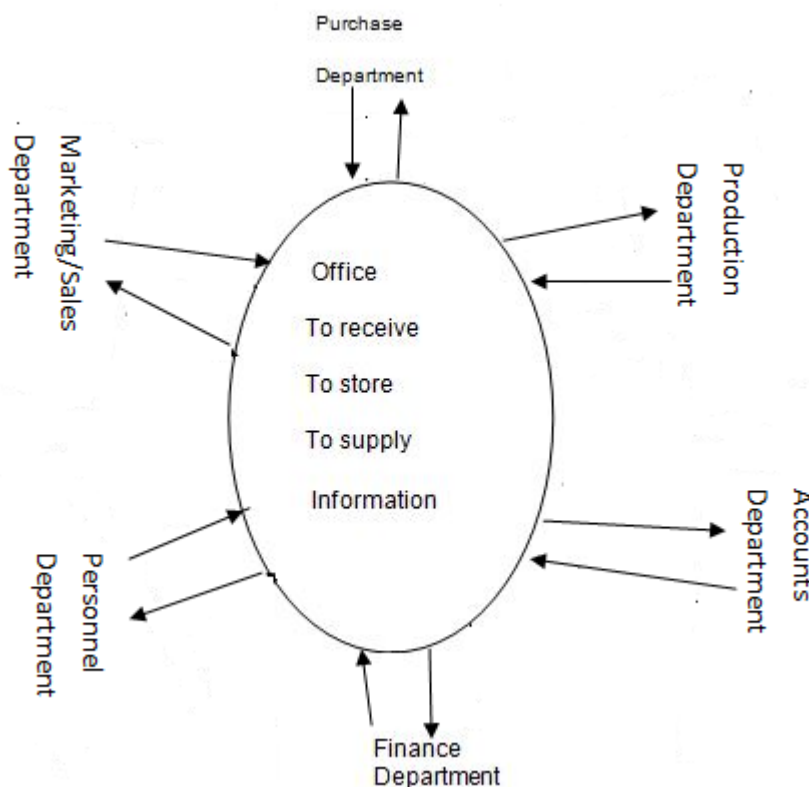
Office work differs from enterprises to enterprise. However, there are certain activities, which are performed by all offices. Some of these activities are listed below:-

1. Handling incoming and outgoing mail.
2. Developing office systems, procedures and methods.
3. Maintenance of records (filling and indexing).
4. Designing and procuring at office forms stationery etc.
5. Recruiting and training of office staff.
6. Maintenance of furniture, machines, appliances.
7. Preparation of statements, reports etc.
8. Maintaining of accounts and other financial records.
9. Preparing up to date information for the whole firm.
10. Handling telephone calls and inquires.
11. Arranging the data in a quickly accessible form for use.
12. Safeguarding the assets.
13. Keeping a prompt and accurate handling of inquiries, orders.
14. Maintaining efficient flow of work in the office.

RELATION OF OFFICE WITH OTHER DEPARTMENTS

Large organizations are divided into various departments such as office, production, purchase, sales, finance, personnel etc. It is the office which is concerned with receiving, recording, arranging, analyzing and giving of information. All the departments depend upon the office for various information needs. The office serves as the co-coordinating link in any organization. For coordinating the activities of different departments in an organization, office has to keep relations with each and every department E.g. orders for raw materials, sales complaints, appointments e.t.c are passed through office only office needs information of many kinds from different functional departments for framing general policies office supplies information needed in performing the functions of production, sales, personnel etc and collects information from these departments for general policy framing and co-ordination.

A diagram showing relationship of office with other departments of an organization



The two way relationship of office with other departments is related as follows

Office and production Department.

Office work provides the necessary information for planning and control of production work. It renders clerical services like typing, duplicating.

An office maintains records of inventory work in progress, cost of production.

Office and marketing/sales department.

An office maintains contacts with the customers.

It supplies information about the current fashion and competition to the marketing department . customers make enquiries and place orders through the office.

It provide clerical work like typing duplicating and maintaining sales records on behalf of the marketing department.

Orders are executed by the sales department and the bills is sent through office.

Complaints from the customers are received by the office and conveys them to sales department.

When sales go down, the office helps in market research to find out the reasons for low sales. The reasons are known to departmental heads, who take step to overcome the situations.

Office and purchase Department.

Materials, stores, plant, machineries etc needed for purchase department is arranged by the office. Office assists the purchase department in inviting quotations or tenders in sending orders, receiving invoices, making payments.

It also gives general services to purchase department and maintains.Purchase Journals, ledger

Office and Accounts/finance Department.

The accounts department maintains all the records of all business transactions with the help of an office.

The office prepares various financial statements and reports for the top management.

Correspondence on behalf of accounts department is conducted by the office.

It renders assistance to maintain the books of accounts, budgets, salaries and books of accounts, budgets, salaries and wage bills, invoices, collection of debt.

Office and personnel management

The personnel department depends highly upon the office for performing its work.

The office gives advertisement for job vacancies, receives applications, sends interview and appointment letters etc on behalf of the personnel department.

It maintains the personnel files of employees.

IMPORTANCE OF AN OFFICE

No business concern can exist without an office. An office can be described as the never centre of the whole concern. The importance of the office is as follows

(i) **Office renders valuable services to all other departments.** The important services provided by the office include clerical and other services to other department, divisions, sections, etc of the organization and they can not operate without an office.

(ii) **Office as an information centre or memory centre.**

Office is the information centre of a business is an organization, office is as important as the brain in the human body. As such office is the brain of the organization it collects useful pieces of information, from different sources, i.e internal and external, and records them. It arranges and analyses them and makes them available to the management whenever needed. Thus office acts as an information centre or store house or memory centre. All kinds of information, past or present are available in the office.

(iii) **Office as an intermediary.**

It connects outsiders with different departments and vice versa. All the sales orders are received through the office. It connects the organization with the customers, suppliers, government and general public office act as channel that link the business organization and its customers. Their enquiries, orders complaints etc are taken care by an office

(iv) Office as an administrative nerve centre an office is the heart of all business activities from here information on purchase, sales, finance and communication entrusted to it.

(v) **Office as a control centre.**

It is the medium for translating the policies into action. Then management makes but plans and policies and directs business activities in profitable ways and each department office is responsible for the function entrusted to it.

(vi) **Office as a co-ordinator.** Office aids management to bring about co-ordination. A central office co-ordinator the activities of departmental offices the office provides the necessary data. The management brings about co-ordination.

QUESTIONS

1. What is an office? What are the functions of an office?
2. What is an office? Bring out its importance.
3. "Office work is unproductive clerical work" explain.

4. The office is a co-ordinating factor. Explain
5. The office is the nerve centre of an organization. Explain
6. What are the functions of modern office? Explain its organization and Management.
7. An office may be regarded as a place where the central mechanism for an organization is located comment on this statement and explain the importance of modern office.
8. No organization worth the name can exist without an efficient office” comment on this statement and bring out clearly the functions of modern office.
9. The office is to a business, what the mainspring is to a watch explain.
10. What is the relationship of office with other departments in the business firm?
11. Office does not produce any article for sale therefore, office work is relatively unimportant” do you agree? Give reasons for your answer.
12. “Office work is concerned with records and statistics with computing with planning and scheduling”. In the light of this statement, discuss the administrative management functions of an office.
13. The essential feature of the office is the work itself, not who does it or where it is done” .Discuss.

OFFICE ACCOMMODATION AND LAYOUT

Introduction

Office manager aims at getting the work done in the office at the lowest possible cost through proper selection and training cost through proper selection and raining of staff. Office staff work efficiently if they are properly accommodated. Employees have to spend long hours in the office. Bad and insufficient accommodation can course boredom, monotony and frustration among them which will affect their efficiency among them which will affect their efficiency adversely. Suitable accommodation, modern adversely. Suitable accommodation, modern equipment and proper working conditions are important factors in improving efficiency and reducing costs. The office people can work well when there is a good and pleasing atmosphere in the office, because the clerks who are engaged in the office, use their mind and brain in the work. Concentration of mind is an essential point. Therefore the important factor of office management is to provide proper and adequate office facilities to the staff so as to get maximum results.

The office manager has to play the major role in determining the arrangement of office.

The following points are to be considered;-

- (i) the site or location of office building
- (ii) Size and shape of office

- (iii) Layout of office
- (iv) Light
- (v) Health
- (vi) Noise
- (vii) Sanitation
- (viii) Safety
- (ix) Open office or private office
- (x) Convenience to staff and visitors
- (xi) Physical conditions of office
- (xii) Ventilation and air condition

The site/location of the office building

Factors to consider in providing the right type of office accommodation

- (i) Location of office building
- (ii) Size, shape and cost of office
- (iii) Light and ventilation of the space
- (iv) Layout and facilities for office organization
- (v) Customer and staff conveniences
- (vi) Safety of the staff, etc

1. LOCATION OF OFFICE BUILDING

This refers to the physical place where an office should be located.

While selecting a building for office present as well as future requirements will be considered. In future the office may have to be expanded if office is situated unsuitably, it may cause inconveniences both to the staff and to the customers.

Merits of an office in Urban areas:-

- (i) The staff and the customers can easily reach the office because of the transport facilities prevailing in the city.
- (ii) It facilitates to make purchases and sales in city rather than in suburban are because city abounds in dwellers, shops etc when buyers want to make purchases they go to cities
- (iii) One is able to enjoy the available facilities such as post offices, banks, insurance companies, etc in rural areas such facilities are not easily available.
- (iv) There is a general tendency among the staff to prefer to work in a city. Therefore a good recruitment of staff can be easily made for the office, it is in the city.
- (v) A goodwill can be created in the minds of the buyers by providing service after sales at the proper time. Immediate action can be taken and customers too are satisfied.
- (vi) The important government offices like income tax, sales tax, register of companies etc are situated in the cities. It will be convenient to make easy contact with such offices.
- (vii) Electricity, water supply, skilled labour, easy communication, specialized agency etc are easily available.

Demerits of an office in urban area

- (i) In the initial stage the firm may not be able to construct its own building and will have to go for rented accommodation. Often heavy rent will have to be paid.
- (ii) It may not be possible always to have adequate space for the office because cities are overcrowded
- (iii) Expansion facilities are also limited, because of the non-availability of building high rent etc
- (iv) Generally in cities, dust and noise prevail in the atmosphere, hence the concentration of mind and physical condition which are necessary for smooth working in the office are affected
- (v) With high cost of living, the staff may demand higher wages, resulting in high expenditure.

Merits of an office in Rural area

- (i) The wages of the labourers will be low.
- (ii) The rent of building will be low. The cost of construction of a building will also be low.
- (iii) There will be possibility of expansion, because of the space available.
- (iv) The atmosphere will be clear and good for health.
- (v) Insanitary conditions will not prevail.
- (vi) Cost of living is lower for the employees.

Demerits of an office in Rural areas

- (i) There will be no proper transport and accommodation.
- (ii) Electricity will not be available.
- (iii) There will not be any facilities for repairs and maintenance.
- (iv) Skilled labourers will not be available.
- (v) There will be delay in getting the essential materials, because shops may not be there.
- (vi) Specialized agencies- banking, engineering insurance, etc will not be available.
- (vii) Important government offices may be situated in cities, as such regular contact is impossible.
- (viii) Odd sales or purchases are not possible.
- (ix) Staff may not be willing to serve in the rural area.
- (x) There will be no scope for the expansion of business, because of the low sales. After having decided whether to be rural or urban for office purpose the next step should be to rent or own premises.

OWNED Vs RENTED PREMISES

Owned premises	Rented premises
i. According to one's own and pleasure a building of any size and space can be constructed	One must adjust and satisfy oneself with the size of the building and the space available
ii. Initial expenses will be high and so it may not be wise always to go in for construction large amount of capital has to be	In the initial stage of a firm, it is better to have rented premises rather than owned premises, which will consume a large amount
iii. Municipal taxes, maintenance expenses have to met	There are no such expenses
iv. A good attractive building owned by a firm will naturally add to the prestige of the firm, staff and customers	A rented building does not add to the prestige of the firm
v. Subletting is possible	Subletting is not possible always
vi. The office premises cannot be shifted anywhere as they are permanently fixed	When a more suitable location is found, the office can be shifted very easily
vii. It is not convenient for medium and small offices and newly started firms because they have less finance	It is convenient for medium and small offices and newly started firms

FACTORS TO BE CONSIDERED IN ACQUIRING OFFICE LOCATION

While choosing the location for office, consider the following;-

- (i) Good location

To choose a location which create good impression among workers, customers and other person.

- (ii) Availability of basic services

The office to be located in places where there are such services as water, electricity, communication, banks, insurance.

- (iii) Availability of customers

The office should be located in areas where there are suitable customers of business.

(iv) Expansion

The site should allow the expansion of office in the future.

(v) Availability of labour

Office should be located near the source of availability of labour.

(vi) Acquiring cost “Cost should be minimum and efficiency must be maximum”

The cost of acquiring the office site should correspond with the true financial position of the business.

(vii) If necessary, the location of office.

Should be preferred nearer to other units, like go down, branches, factory etc for better function.

(viii) Suitable atmosphere the office should be sited in areas which have access to light, temperature, cleanliness, etc . Also the office building must be located in a quite and health neighbourhood from noise, dust-fumes, bad smell etc.

THE SIZE AND SHAPE OF THE OFFICE

The size and shape of the office should be conducive to the present requirement as well as for the future expansion. Ample room is prerequisite for the most efficient performance of the staff and the optimum utilization of equipment. Each worker in the office must be given facilities to do his job freely. In deciding the size of the building both the area and shape are also to be considered. Because time will be wasted in walking. It will be good to select a square or rectangular shape for office.

OFFICE LAYOUT

Meaning:-

Is a systematic and scientific arrangement of different departments and equipments on a well defined plan, so as to get a maximum benefit from the space available.

Or

Refer to decide on the arrangement of furniture and equipments within each office.

Objectives of office layout

The office layout has the following objectives

(i) To facilitate the best possible utilization of available space without wastage.

- (ii) To ensure smooth of work without interruption.
- (iii) To provide good working condition to office staffs.
- (iv) To achieve co- ordination among different departments.
- (v) To facilitate control and supervision.

PROCEDURES IN OFFICE LAYOUT

Steps towards effective planning of office layout

The following sequence of steps are involved in planning layout of an office

- (i) First step

Determination of the floor space in available given office.

- (ii) Second step

Preparation of the graphical sketch of the floor to show the location of departments, partitions, window and so on.

- (iii) Third step

Consultation with heads of departments and supervisors to know their needs to space.

- (iv) Fourth step

Preparation of the detailed plan of tentative layout.

- (v) To obtain the approval of the (previously procedures) from the management.

Merits of good layout

A good layout is a good investment. A food office layout offers the following advantages.

- (i) A good layout makes supervision more effective.
- (ii) A good layout promotes. Efficiency as it follows the flow of work.
- (iii) A good layout aim at making the most economic and effective use of available floor space.

- (iv) There is better communication among all departments.
- (v) The layout provides for joint use of machines and equipment optimum use.
- (vi) The process of production, planning and control is greatly facilitated.
- (vii) It is easy to bring about co-ordination in the organization.
- (viii) It reduces the cost of cooling, heating air-conditioning etc and their maintenance costs.
- (ix) A good layout aims at providing working conditions. This improves morale of staff.
- (x) A good layout projects good impression about the enterprise on customers and visitors. This results in better goodwill.

OFFICE PLANS

Office plans refer to how the office premises are to be divided up for the purpose of carrying out the different functions of an office

TYPES OF OFFICE PLANS

- (i) Open or landscaped office
- (ii) Partitioned/private/cell/traditional office

1. OPEN/LAND SCAPE OFFICE

This is a large room or hall wherein all workers with their managements are seated, such an office may be occupied by administrative officer, office supervisor, typists and filing clerks.

Advantages of an open/landscaped office

- (i) the space is used well as there are no partitions.
- (ii) Easy supervision of employees to oversee the office activities.
- (iii) Easy communication among units.
- (iv) Better working position is possible.
- (v) The layout of an office can be changed without any cost.
- (vi) Reduce long movement of staff.

- (vii) Decoration, cleaning and maintenance can be done in expensively.
- (viii) Uniformity of layout increases tidiness.
- (ix) Cheap to build.
- (x) No wastage of space.
- (xi) There is feeling of togetherness's among the office staff.
- (xii) Easy control of heating and lighting.
- (xiii) There is competition among employees for improved work performance.

Disadvantages of an open/landscaped office

- (i) Secrecy can not be maintained to large population in the same hall(no privacy).
- (ii) The office appears to be crowded.
- (iii) Infectious diseases can easily be spread.
- (iv) The executives usually not feel comfortable in the open office.
- (v) It is not easy to for supervisors to supervise a big hall.
- (vi) Internal noises due to conversations and talks among workers and visitors' and office machines which results to no throughout concentration on one's work.
- (vii) Generally, documents are not safe.
- (viii) There is neither a feeling of respect nor, identity. In Tanzania, many organizations does not use this type of office plan due to the above disadvantages.

2. PARTITIONED/PRIVATE/CELL/TRADITIONAL OFFICE

This is the type of an office whereby office is divided into small rooms which under different or particular department. Every department under its manager have its own room and in that room document and other facilities are kept their. Most of different organizations on our country (Tanzania) they use this method.

Advantages of partitioned/private/cell traditional office

- (i) The place is quite.
- (ii) There is private privacy is confidential work and discussion is possible.
- (iii) Concentration of mind among workers possible leading to more efficiency.
- (iv) It gives prestige and importance to top executive in the organization.
- (v) Better ventilation is possible as it ensures better health of workers.

Disadvantages of partitioned/private/cell traditional office

- (i) Much space is wasted for partitions.
- (ii) It affects the flow of work.
- (iii) Supervision is costly as more supervisors are needed to watch the work done in offices.
- (iv) It is more expensive to build separate offices.
- (v) There is more expenses to provide adequate light.
- (vi) Cleaning of the office becomes a tedious work.
- (vii) The office layout will be a complicated one.
- (viii) More expensive furniture arrangement is needed than open office or general office.
- (ix) Extra means of communication are needed for each room.
- (x) Clerks, messengers have to waste time to see whether the concerned is there or not in the private room.

QUESTIONS

1. Discuss the importance of office layout what factors would you take into account while laying an office?
2. What do you understand by an “open office” what are its merits and demerits.
3. You have been asked by your employer to choose an office location. What factors would you consider in doing so?
4. Discuss the merits and demerits of an open office as compared to separate office rooms.
5. Define office layout and its objectives. On what principles office layout should be based.

6. "layout is very important for office operations" explain.
7. What are the merits of own office building?
8. What points should be taken into consideration when arranging an office accommodation and layout? Describe them briefly.
9. What is meant by office accommodation? What factors influence office location?
10. What are factors that determine the size of office?

Advantages of open office over traditional office

Open office is large room where many employees of different sections work together. Such an office may be occupied by administrators officers, office supervisors, typist and filling clerks.

The advantages of an open office over traditional office includes the following

- (i) It facilitate better utilization of office space because unnecessary partitions is eliminated.
- (ii) It makes supervision easier and less expensive. One supervisor is able to supervise a large number of staffs.
- (iii) It facilitates better placing and joint use of machines and equipment.
- (iv) It ensure effective communication between staffs as they can see each other.
- (v) It makes office layout more flexible furniture and equipments can be rearranged as and when required.
- (vi) Economical. It is cheap as no part ions are required.
- (vii) It allows free low of natural light and hence good working condition.

ESSENTIAL OF AN EFFICIENT OFFICE ORGANIZATION

The location of the premises, the layout the equipment of the office determine and display the grace underlying the entire organization

1. Location

The central parts of a city or town ideal sites for locating the office. The site must be easily accessible to customer proximate to other services like banks, post offices, transports insurance government offices etc.

2. Premises of the office

Office should be housed in spacious premises with cheerful surroundings. The building must be large enough to meet the requirements of the business and sufficient scope for possible expansion or extension when necessary. Light, ventilation and sanitation are important to be attended to in office organization.

3. Layout

Various departments in the office. Should be systematically arranged in order to ensure quick work and more effective supervision and control. Layout of an office should be highly attractive. Inner layout also should be such that it has good effect on the customers and other visitors. "A well- arranged, well kept office is a grater asset on account of the favorable impression it produces.

4. Furniture

All the office rooms should be well furnished. Adequate tables, chairs racks, cupboards, etc should be provided in each department according o its requirements. Suitable furniture has much to do with the efficiency of the staff.

5. Stationery and equipment

Stationery used in the office should be of standard quality. The high tone stationery produces favorable impression. Catalogues, price list, invoice letter- heads, envelopes e.t.c, should be of suitable size and the paper used in preparing them should be of superior quality papers of different colours are also used for distinguishing different categories of correspondence ink, type- ribbons, files, folders, diaries paper weights, e.t.c should also be of good variety. In addition, labour saving devices like copying machines, Dictaphones, cheque and address writing machines, etc are employed in offices of large undertakings in order to enhance their working efficiency.

6. Office staff

Appointment of office personnel is the most significant aspect of office organization. Various department in the office should be adequately staffed to ensure smooth business operations. Office staff should be well-qualified and experienced. There should be provision of giving training to fresh recruits so that they will be able to handle their respective jobs with confidence and competence

7. Functional division of labour

The main principles in allocation of office work are specialization, correlation and business connection. Division of duties among different individuals would lead to greater diligence in their work.

OFFICE ENVIRONMENT

Introduction

Office environment has an important bearing on the efficiency of employees conditions particularly those influencing development and growth. Environment can be described as a combination of circumstances or conditions that influence the efficiency of the employees. The emotional response of workers is better if the environment is good. A poor office environment often results in decreased levels of production and employee morale.

The working conditions and efficiency have direct correlation between them. Therefore one of the earliest way to improve conditions. It is the duty of the office manager to provide an environment which is pleasant, comfortable and conducive to good working habits. This is because employees spend more time at work in the office.

THE EFFICIENCY OF OFFICE WORKER

The efficiency of office worker depends on various factors including Favorable working environments or physical conditions like;-

1. Proper light
2. Ventilation
3. Interior decoration
4. Furnishing
5. Office furniture
6. Freedom from Noise and dust
7. Safety
8. Sanitary arrangements
9. Security
10. Secrecy

(i) Light

There must be proper and adequate lighting in the office to avoid eye strain. Poor light or powerful light will cause troubles. If the light is not proper, mistakes may be committed or accidents may occur. Improper arrangements of office light will lower the efficiency of staff through delay, errors and mistakes if natural light is not easily available, artificial lights must be arranged.

Points to be borne in mind

- (i) Right power of light should be provided according to the nature of work. There should be any sharp glare or dazzle either directly or indirectly.
- (ii) There should not be any sharp shadows over the table where the clerks have to work.
- (iii) There should not also be any glare directly or indirectly on the table.

Points to remember

- (i) Good light will facilitate an increased output, efficiently and economically.
- (ii) Lighting arrangement should be well designed.
- (iii) Walls may be painted with suitable colours to increase the light. Care must also be taken to reduce the glare and at the same time to improve the vision.
- (iv) If natural light is not available, make proper supplementary arrangement through artificial lighting.

Types of artificial lights

- (i) Fluorescent light

It is widely used and popular. We get diffused or scattered light. Electricity consumption is also low. In offices, it is good system of lighting. It does not matter that the initial expenses are high.

- (ii) Direct light

The lamp is fitted against the ceiling with shades. It gives a direct downward fall of light. The ceiling portion will be in the dark. This type of lighting system is giving place to fluorescent light.

- (iii) Indirect light

This system is the reverse of the above. The fittings are made facing the ceiling. The fittings throw light upward and the ceiling reflects it on the tables. This system gives unshaded light without glare but for clerical work, it is not advisable.

- (iv) Individual desk light

When a particular work requires more light, then an individual desk light can be provided in addition to the common light it is expensive. Since the light is placed on working table, it may cause fatigue and eye strain. It is not common at the present age.

Advantages (benefits) of good light in an office are

- (i) Output can be increased
- (ii) Quality of work can be increased
- (iii) Eye strain can be reduced
- (iv) Improve the morale of the staff
- (v) It create good impression on visitors

1. VENTILATION

The office should be quite airy fresh air will reduce fatigue and remove the irritable feelings of the clerks. Low height of the office, small or few windows, opening to a narrow courtyard etc, obstruct the flow of air through the office. If the office has no free flow of air, particularly in summer, workers get tired and in rainy season they feel drowsy. These will lead to low efficiency of the clerks. Artificial circulation of too cool or hot air will also cause irritation of the workers adequate, clean and fresh air at the required temperature can help the clerks to do their work smoothly. Air conditioner can be used but it is expensive to install and maintain them. If natural and fresh air is not freely moving “fans, exhaust fans, filters e.t.c may be used to draw natural air duly filtered. This is less expensive.

1. INTERIOR DECORATION AND FURNISHING

Interior decorations means pleasant coloring of doors, windows and walls. The main aim of interior decoration is to make stimulates better performance on the part of staff and creates a better impression on the minds of visitors. The colour used on the walls must be of pleasing nature walls of the office should be in light colour dark colours includes design of furnishings, floor coverings etc. pleasant colouring and good furnishings will create cheerfulness in the minds of workers. Furnishings (curtains, chairs, table and sofa covers and floor mattresses etc) should also be of pleasing colour. They have a protective as well as decorative value. For example, curtains not only decorate a door or window but also prevent glare and sunshine coming into a room directly on the table of the office worker.

The floors, stair ways, corridors etc should be of attractive colour. For example, green and blue induce, the feeling of coolness, orange and yellow induce the feeling of warmth. Some paintings and other art pieces can be attractively displayed in the office. A pleasing decoration will increase the prestige of the firm as well as of the employees.

Floor coverings are used to reduce noise and to add to the beauty of the place. Floor coverings are carpets, thin rubber, linoleum or foam mattresses.

The decoration of an office can have a noticeable effect upon the morale of the staff. Drab surroundings are depressing, pleasant surroundings are conducive to good work. They have a protective as well as decorative value. For example, curtains not only decorate a door or window, but also prevent glare and sunshine coming into a room directly on the table of the office worker.

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iv. **FREEDOM FROM NOISE AND DUST**

Noise may be defined as unwanted sound in or outside the office. Noise may be an occasional or an unusual loud sound or a constant loud sound. When employees are at work, there should not be any disturbance. Noise will create irritation to the office people. Clerical work involves great concentration of mind. Therefore the mental concentration mind. Therefore the mental concentration of workers should not be disturbed by noise. It brings about errors, mistakes, delays, mental fatigue etc and in turn, leads to inefficiency and lowering output. Unexpected sounds or loud noise will take their mood off from the work. Naturally, when people are working in an tolerable, because people are accustomed to it. There are internal noise as well as external noise.

Internal noise are created by the following

1. Movements of machines.
2. Movements and conversation of clerks, peons, visitors etc.
3. Cracking doors.
4. Calling bells, telephone bells.
5. Shifting of furniture from one place to another.

Measures to prevent internal noise

1. Carpets or rubber mats spread on the floor will reduce the sounds caused by the movements of the clerks and other people.
2. Below the office machines which create noise in operation, felt pads can be placed which reduce the noise.
3. Calling bells can be replaced with buzzers

4. Banging or cracking doors should be fitted with rubber or left stops to reduce sound. Proper oiling of the hinges of the door will also reduce noise. Automatic door springs, rubber pads, etc can be fitted.
5. Telephones may be kept in sound- proof booths to reduce the sound.
6. Clerks must be instructed to maintain calmness.
7. When the office is free from the noise calmness prevails, clerks will automatically be discouraged to make sounds by talk or gossip.
8. Workers must be engaged fully during the office hours so that they don't waste their time over idle gossip.

External noise are caused by the following

1. Street sounds
2. Noisy industrial process etc the sound seldom enter the office through the open windows and doors

Measures to prevent external noise

1. As far as possible the location of the office should be away from the noise creating places
2. Doors and windows may be kept closed
3. Walls of the office should be made of sound-proof materials

DUST

In certain area, the amount of dust in the surroundings is much greater than in other area. For example in areas where cotton, jute or cement mills are working, the atmosphere is constantly dust laden. When dust enters the office, it spoils the decoration of the office, it spoils the decoration of the office, affect the health of staff, reduce the life of machines, equipments, etc it is difficult to check entry of dust into the office dust should be cleaned quite regularly.

v.SAFETY

Safety precautions are a must. Accidents are undesirable. Whenever any accident occurs, it leads to a wastage of time the person involved in the accident and the fellow workers

Causes of accidents in the office

1. Slip on floor.
2. Fall on stair case.
3. Leakage of electric wire.

Precautions

1. A first- aid box be provided and must be under the custody of a trained person it must be placed at a visible and convenient.
2. Place.

3. Five precautions methods. Fire extinguishers must be provided and the staff be trained to use them.
4. Fluorescent lamps and fans must be checked periodically. All the electrical fittings must be checked and tested to confirm the absence of leakage.
5. Files should not be placed on the top of almirah, because when taking one file, others may fall down.
6. There should be regular inspection of machines, equipments e.t.c.
7. Smoking should not be allowed within the office premises.

VI. SANITARY ARRANGEMENT

The office and its surroundings must be kept clean and free from all bad odour and infection. Insanitary conditions affects the health of staff adversely. Cleanness of the office contributes to a good atmosphere, and it creates a pleasant and healthy attitude to the clerks work in. the unclean office affects the prestige of the clerk too.

Hints to be noted

1. Office must be cleaned everyday.
2. There must be special cleaning, at least once a week, so as to keep clean the filing cabinet, cupboard, shelves, furniture, equipment etc.
3. The room should not only be clean but free from bad odour and infection.
4. Office should be sprayed often with disinfectant.
5. Waste paper and other waste materials must be placed in a waste-box and disposed of daily in the evening hours, preferably after the office hour.
6. Daily after cleaning the floor of the office, the furniture should also be dusted.
7. Air purifiers must be used which must be replaced in time.
8. A sufficient number of spittoons should be provided in every building at convenient places.
9. Effective arrangement should be to provide a sufficient supply of wholesome drinking water at suitable places.
10. Adequate cloak rooms, toilets and washing facilities should be provided at convenient place.
11. Neat and clean canteens under the combined management of employers employees, must be arranged to supply quality food to staff interior decoration may be done in pleasing colours, inside the canteen.
12. Office should have provision for rooms where workers may go and rest during rest intervals.

VII. SECURITY

One of the vital functions of a modern office is to keep and preserve documents and records for future guidance.

Important and valuable documents are kept in office safes or bank locker. Office files, correspondence e.t.c are kept in safe places so that outsiders may not have access to them.

People entering the building should properly identified and entry passes should be issued to them. For any intruder the cash department or cash sections the most tempting target. It is thus necessary to locate it in a very safe part of the building and restrict entry to this part. It is essential to install alarms and warning systems so that emergencies are made with effectively an in time.

VIII. SECRECY

There are some records about the business which must be kept secret from the junior staff and outsiders. They may be known as business secrets disclosures of such secrets may entail heavy loss to the firm. It may lower down the reputation of the business. The management must determine what type of information must be kept secret and must make arrangements for keeping them secret.

The following information should be kept secret

(i) Tenders

Tenders which the organization submits or invites should not be disclosed to anyone till the date of tenders. If disclosed anyone till the date of tenders. If disclosed the organization may lose valuable contract.

(ii) Cost information

If the clerical staff possess knowledge of cost data, there are possibilities of its leakage to competitors. Therefore disclose of cost information to staff should be avoided.

(iii) Labour policy

The personal policy of management should be kept secret and should be disclosed at appropriate time. If leaked out, it may lead to strikes, lockouts and other unpleasant activities.

(iv) Dividend declaration

If the rate of dividend to be declared by the company is disclosed, before its annual general meeting, such disclosures may have impact on the market value of its shares.

(v) Financial position

The financial position of a company is to be depicted in its balance sheet at the end of every year. If unfavorable conditions, if any, is between the year, it will reduce the credit worthless of the business share prices may go down, sales may be affected adversely etc

QUESTIONS

1. Discuss the consideration you will take into account while planning for office lighting, ventilation and efficiency of work.
2. Discuss, the various factors which influence the physical environment of an office.
3. Describe the importance of proper lighting and ventilation from the point of view of efficiency of office work.
4. Discuss the impact of noise in relation to clerical work and the ways in which it can be reduced.
5. "Interior decoration is now an important part of office environment". Discuss
6. What are different types of artificial lighting used in modern office.
7. A scooter manufacturing company employing 3,000 factory workers and 500 office employee is contemplating the moving of its operation from Madurai city to suburban meluri. The question has been raised whether the company should maintain its office in Madurai city or whether to house the office in the same building as the manufacturing operations in meluri. There is prestige factor to be considered in having a Madurai city address. Discuss in the order of their importance, the factors to be considered in locating the office in suburban or in Madurai city.

OFFICE FURNITURE

Office furniture includes chairs, desks, tables and tools

Factors to consider before acquiring the office furniture

1. Suitability. To suit particular job or jobs.
2. Cost. Should be within the financial ability of an enterprise.
3. Comfort. Tables and chairs should make the worker not feel fatigue.
4. Durability. Furniture to be durable enough for longer business uses. Metal furniture probably last longer than ordinary wooden furniture.
5. Design of the furniture should match with the actual work to be done.
6. Appearance of the furniture should be pleasing enough to impress the workers and visitors.
7. Hygiene. How easy it is to clean and to clean the floor under it.
8. Space saving. Furniture should occupy a minimum space.
9. Portable easy to carry the furniture from the space.
10. Fire risk. Again metal furniture is better fire risk than wooden.
11. Safety. Plate glass topped furniture may not be safe in use.
12. Supervision. To work being done in office should be overlooked due to structure of furniture.

Basic principles in selecting furniture

1. Suitability

The selected furniture must be suitable for the job. The working area of the table should be sufficient. It must also have space to keep files (incoming and outgoing) stationery etc.

2. **Comfort**

The seat of the workers, shape of the chairs and tables must be so designed that the workers will not feel any fatigue while doing their jobs. This will result in efficiency in turn more output. The equipment, forms, stationery, e.t.c must be within easy reach. Those items frequently used, should be placed at the hand.

3. **Design**

Prior to purchase, one must have an idea of the size height and design of the furniture. The decision regarding the choice of furniture say table, desk, chairs etc as to its size and design depends on the officer who uses it.

4. **Durability**

Metal furniture is more costly than wooden furniture. But the maintenance charges of metal furniture. Nowadays, metal i.c steel furniture is more popular because it is more durable than wooden furniture. Moreover steel furniture is safe against fire, burglary e.t.c

5. **Weight**

As the business expands, the size of the also increases. The existing layout of the furniture has to be regarded according to the required comfort it may become often necessary to move the furniture from one place to another. Therefore, it is better to have light, there will be less breakage and wear and tear when the furniture is shifted.

6. **Space saving**

Furniture which would occupy minimum space should depend upon the space available in the office and the number of persons who work there

7. **Cost**

The cost of the furniture should not be neglected when selecting it. It should be kept within the financial limits

8. **Hygiene**

The outlay of the furniture should be so made that it will be easy to clean the furniture as well as the floor underneath it.

9. **Usefulness**

The furniture should be selected according to the nature of the particular job. When it is not needed for the department, it can be easily transferred to another department, where it may be useful.

1. Appearance

Furniture should have a good appearance and be pleasing to the eyes. This will impress the workers and visitors. Wooden furniture looks attractive. Furniture of high quality is good and durable. It has a warm look and gives comfort to the users. Many varieties and designs of furniture can easily be made.

1. Multi-purpose uses

Furniture should be adaptable to multi-purpose uses, wherever possible. This permits standardization in the purchase of multi-purpose furniture, wherever possible. This permits standardization in the purchase of multi-purpose desks and enables office workers to perform more than one type of work with the help of the same kind of furniture.

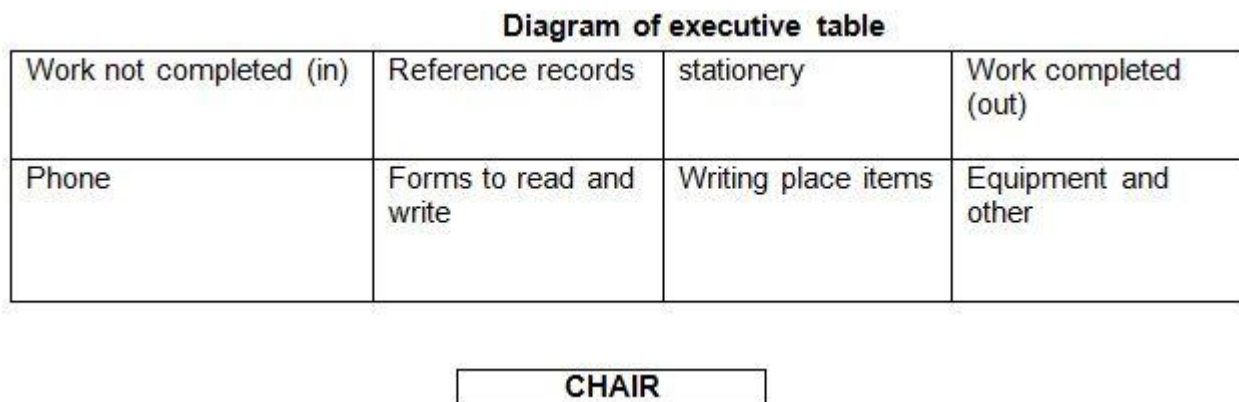
TYPES OF FURNITURE

Office furniture may be of different types, the usual types are as follows:-

1. Executive furniture

The term “executive” is applied to those persons who are responsible for making decisions and policies. Generally executives include section managers and officers above them. Therefore, different executives will prefer different types of furniture to suit their job and status.

Diagram of executive table



1. Desks

The desk is the work-bench of the office worker. Most office work is handled one desk, over a desk, through a desk or across a desk. The primary function of any desk is to provide a suitable surface for writing, checking, sorting, examining and conferring. The desks selected for office should multi-purpose in use.

Types of desks

(a) Executive desks

These are designed to suit individual tastes and quite often they are designed as a show piece of an organization. Their purpose is also to impress visitors with the prestige and importance of persons using them. Table top of executive desk is covered with a sheet of glass. Some executives use full top glass while other prefers to cover writing area.

(b) General purpose desks

These are of less elaborate design being single pedestal with less desk space.

(c) Typist desk

This may be fitted with either a fixed well for the typewritten or a collapsible well into which the typewriter is fixed.

2. Table

In many government and other office, tables still server as clerical desks and this they may be fitted with one or two drawers. Tables are ordinarily needed for sorting of mail, housing of files, file- tray, holding meetings etc

3. Chairs

Chairs are perhaps the most important item of furniture from the point ot view of the worker since he sits in them all through the day in office. Comfortable sitting in the office not only reduces fatigue but also maintains the health of the employees, thus benefiting the firm by less absenteeism, few errors and large volume of work. The back of the chair should be such which gives support to the back and sufficient relaxation. It will be better if the back is adjustable. A revolving chair may be ideal in most cases since it allows for movement without getting into ground.

4. Fittings and accessories

Generally office fitting include desk lamp, telephone stand, waste basket etc when choosing or selecting such items, their colour may be considered, because the colour of these must not ruin the pleasing atmosphere of the office.

Clerks should be provided with certain accessories in order to perform their work efficiently. Such items may be penholders, sorting trays, boxes, cabinets, special lamp etc

QUESTIONS

1. What are different types of furniture in an office?
2. What are the factors to be considered when selecting furniture for a business.
3. Discuss the principles of selection in the furniture layout.

OFFICE MACHINES (APPLIANCES)

Introduction

Although it is possible for office work to be carried out manually without the use of any machine the output of this effort would be of poor quality and high cost that, it would not be accepted by many business firms of today. Machines do perform several office tasks, more than what can be produced by some office staff. Machines produce work in a better way, more quickly thus saving costs and improving efficiency.

OFFICE MECHANISATION

Refer to a process whereby office machines and equipments are introduced in the office with a view to aid administrative process

IMPORTANCE OF MECHANIZATION

- (i) Office works can be done quickly and effectively through the means of office machines.
- (ii) To err (to make a mistake) is human, but machines seldom err. Therefore to promote accuracy of work, machines are employed.
- (iii) A single machine may substitute two or three persons eg a typewriter. Thus, labour cost can be reduced.
- (iv) Machine operations relieves manual drudgery (hard boring work) and fatigue and to that extent machine improve morale the employees.
- (v) Speed work is possible, in addition economy. Thus much time can be saved.
- (vi) Mass of information can be secured ease. At present, business concerns need detailed information. For this many clerks may be required. But through machines the cost of the information can reduce and at the same time more result is at ease and economy.

ADVANTAGES OF MECHANIZATION

(Introduction of machines and equipments in the office)

Mechanization has become an important part of modern office administrative process. It offers many advantages, chief of which are as follows:-

- (i) Ensures greater accuracy with more economy. The machine information is clear, complete concise and correct.
- (ii) Guarantee greater speed. It is an accepted fact that the office work performed through labour savings devices is done at a greater speed than the same work done by clerks.
- (iii) Reduces operating cost.

The initial cost to introduce machines may be high. But in the long run the machine work will prove to be cheaper.

1. Uniformity, standardization, simplification of work can be maintained.
2. Labour savings. Work performed by a machine requires very few staff and thus there is labour saving and reduction of salaries and wages due to fewer workers needed.
3. Facilitate control. From the management point of view greater control is possible and much more information is available.
4. Reduce overtime. When the office is mechanized, or greater amount of overtime is also reduced.
5. Prestigious. The product of machines is more presentable.
6. Reduces fraud. They assist in avoiding errors and frauds.
7. Economical. Cost per unit of job done by machines usually works out to be less than that done manually e.g. computer is more economical than working with hands.
8. Relieves monotony many jobs in the office are repetitive in nature. Clerks instructed with the task of doing jobs get tired, both physically and mentally, if such jobs are done through the help of machines operated by skilled office staff, the same work becomes pleasant and interesting.
9. Saving in time. Use of the machines in the offices quickens the pace of office work and thus saves time.
10. Satisfactory services to customers. Prompt replies to inquiries, delivery of goods in time, preparation of correct invoices, keeping of accurate and up to date accounts etc are all essential to build up goodwill for the concern. Mechanical devices are helpful in doing all this and much more speed accurately and neatly. Thus, customers get satisfactory services.

DISADVANTAGES OF MECHANIZATION

(Limitations of machines and equipments in the office)

- (i) Need the operation of human beings unlike human beings machines cannot think and need staff to operate them or to prepare work to be used by them. For example can not get data from other sources than human beings.

- (ii) Uneconomical for some job. Machines may be more expensive if the volume of work is small.
- (iii) High initial capital the introduction of machines in an organization requires large sums of money.
- (iv) Machine may lead to unemployment. The use of machines in offices contribute to lack of employment in such countries where labour is not cheap.
- (v) Obsolescence. Machines are subject to become out of use due to introduction of new and modern machines. This cause high cost and seriously problems to a business.
- (vi) Breakdown. Machines are subject to break down which affects work and do depreciate.
- (vii) Effect on staff machines may examine staff morale and initiatives.
- (viii) Standard forms. Machines use particular stationery and equipments which can cause dissatisfaction among workers.

FACTORS JUSTIFYING THE USE OF OFFICE MACHINES

The following factors may influence in one way or another introduction of office machines:-

- (i) Volume of work if volume of work is large and unable to complete it timely.
- (ii) Accuracy requirements. If the degree of accuracy required needs the use of machine.
- (iii) Speed. If it is considered potential to meet deal lines.
- (iv) Routine work. If monotony is such that employees cannot be retained longer for the job.
- (v) Reduce cost. If the use of machine lead to the reduction in costs.

FACTORS TO CONSIDER BEFORE ACQUIRING (SELECTING) OFFICE MACHINES AND EQUIPMENT

- (i) Initial capital outlay. The amount required for purchasing them.
- (ii) Operation cost. When the machine is in operation, its running and maintenance/cost/expenses must be minimum. Cost of additional machines, if any, and supplies must be minimum too.

- (iii) After sale services. Services. Provided by suppliers or manufacturers.
- (iv) Purpose. The need for a particular feature eg. Better presentation or control on frauds.
- (v) Effect on existing system. Eg need to change some system or stationery which is in use before machines are introduced.
- (vi) Simple in operation. Easy operation of the machine, less fatigue to the operators and good results are required operators may be trained effectively at less expenses.
- (vii) Flexibility. The machine must have flexibility to adopt for multiple purposes, when the cost of machine is high.
- (viii) Durability. There are different conditions and therefore the machines must be strong and durable. Breakdown of the machine means investment is waste.
- (ix) Portability. In modern times, the machine is reduced into portable size. When the machines are small it is convenient to handle and easy to move from one place to another.
- (x) Benefit. When manual labour is replaced by machine, greater accuracy and better result must be produced. There must be a qualitative change in the office when a machine is introduced.
- (xi) Style. Pleasing design and colour is preferred. When one looks at a machine, it must be attractive, apart from satisfactory operation.
- (xii) Prestige. The good image to be reflected by organization you deal with customer.

MODERN MACHINES AND EQUIPMENTS USED IN AN OFFICE

The equipment and machines used in office may be categorized as follows

(a) ADMINISTRATION AND CORRESPONDENCE

1. Telephone

It is an important instrument of modern office communication. It facilitates speedy exchange of information. The customers and the firm can get into touch with one another and directly. This is an external system which connects the business house with the outside world such as customers, suppliers etc.

2. Dictaphone

This is a mechanical appliance used for dictating replies to correspondence or any other matter to be recorded.

Advantages of Dictaphone

- (i) The dictator dictate matters at any time.
- (ii) It ensures speed and accuracy and saves time.
- (iii) The typist can type well without knowing short-hand.
- (iv) It increases accuracy and efficiency.
- (v) Telephone dictation can also be recorded in Dictaphone.
- (vi) It is portable, and like a book can be carried anywhere.

3. Combination of telephone plus

The conversation of the both parties can be recorded on the dictating machine. It is useful in newspaper offices.

4. Ipsophone

It records telephone messages and speaks for its owner and repeats the messages when required. When the telephone rings, the ipsophone will start its work, by speaking its number and asking for messages to be recorded. Thus all the messages and calls are recorded in the machine.

5. Auto abstract

Is an electronic machine which is used to read lengthy reports, letters, etc these types of machines are much useful to company secretaries, managers etc

(b) 1. Typewriters

This may be manual or electric. The letter require little physical effort to use and the typist can do continuous work without getting too tired. The execution of work through a typewriter is accurate legible and fast. Typewritten letters are more attractive than handwritten letter.

Types of typewriters used in firms

(i) Portable typewriter

These are light typewriters for travelling workers like salesmen

(ii) Standard and silent (noiseless) typewriter

These make no noise when in use. Such noiseless machines are invaluable as the typist can do the work in the same room where the executive officer is also seated.

(iii) Variable type typewriter

Typewriters which have different variety of style and size of types are so adjusted that according to the requirements, the type of letters can be changed- Italic type, small type, big size (bold type) types are used when correspondence is little and small type is used when correspondence is lengthy. This is useful particularly in preparing reports where different styles of types can be used to distinguish one set from another

(iv) Electric typewriter

This type is now in general use. The expenses is more. The advantages of such machine are operator will have less fatigue in one operation 20 or 25 copies can be obtained against 6 on standard typewriter. the operator need not exert himself much. The typist can type faster

(v) Automatic electric type typewriters

These use work prepared on a pre- punched tape, edge punched cards or tabulating cards or recorded on magnetic tape, sheet or disk which is “played back” on the automatic typewriter. It is also referred to as “work – processors” it may have a screen as well as display the message being typed.

6. Stenographic machine/shorthand machine

This is used to take down messages phonetically.

7. Duplicating machine

Is used when several copies of documents are required. The type-writers produce only a few copies of documents.

Types of duplicating machines

(i) Spirit duplicating/hectograph

The master copy is prepared on art paper by means of a hectograph carbon paper. A reverse image is obtained on the back of the master copy, the master copy is fitted round the drum of the machine exposing the carbon image to the outside. The papers pass first on the paper dissolves a very little of the carbon on the master copy and thus gives an impression on the copying paper. It can be operated by hand or electricity.

(ii) Stencil duplicators (mimeograph)

In this system, stencil is cut on a typewriter or by hand (if by hand a type of pencil known as stylus is used).

The typed matter will be within the frame marked in the stencil. When stencil is cut, the ribbon is so adjusted that the typist will cut the stencil directly.

With the letters. Any error, if happens, can be erased by using correcting fluid. The cut stencil is placed in a duplicating machine, the cylinder of machine is inked with a special type ink. The machine is rotated till the ink is read over the rollers. There maybe two trays on each side. One for carries papers of the correct size and another tray receives the printed papers. When machine is switched on, the machine feeds papers automatically and after that leaves the printed paper on the other tray. The copies produced also counted automatically in the machine. Itself. The stencil is removed and kept for reuse.

(iii) Photostat (photographic duplicators)

This method can also be used whenever an exact copy of any document is required. In this, photography of the documents is first taken out through camera. No dark room is required for this. The produced copies are soon developed and when dries are ready for use; copies of larger or smaller size than the original document can be taken in any colour.

8. Paper shredders

For destroying unwanted documents to avoid them getting into wrong hand.

c) ACCOUNTING

1. Calculating machine

Calculating machine replaces the human labour in operations of adding, subtracting, multiplying and dividing of arithmetical figures. These machines are also used for calculation including interest, commission discount, exchange etc. these machines can perform four or five times the work done by a man.

Calculators

These may be manual or electric. The simplest ones will add and subtract. The more complicated electric machines will add, subtract, divided and multiply and give sub-totals and totals.

Calculating machines include:-

(i) Portable calculators

These are small calculators which can easily be moved along with. They add, subtract, multiply and divide.

(ii) Non-listing calculators

Only display figures but do not produce a copy of the figure put into the machine.

(iii) Listing/printing calculators

Is like an adding machine which gives the result in printed form.

(c) POSTING OR MECHANIZED ACCOUNTING MACHINES

These perform various functions like posting simple ledger, balancing accounts, invoicing, payroll and stock records. These include such machines like

(i) Recorder machine

It is useful in modern accounting and record keeping. The photographic method used and it is known as microphotograph used and it is accurate and has not very high speed it can take 2,500 copies at a time, here a camera is used inside the machine.

(ii) Book – keeping machine

Entries in the accounts books are made and ledgers are prepared and quick preparation of final account is possible there will be no mistakes.

(d) CASH OFFICE EQUIPMENTS

(i) Cash register

It is a mechanical appliance for recording and checking cash receipts. The amount paid by the customers is shown on the dial and it is also at once printed on the sheet. Some of the latest cash registers will issue receipts to the customers and at the same time total the amount received.

(ii) Coins counting machine

Coins can be counted by this machine it is like a box and there are many trays according to the types of coins, in the first or the top tray there is only one hole. By this hole all the small coins will go down. Big coins remain at the top. The trays are arranged one below the other.

Thus the coin sorter is a device which sorts out coins at different denominations, in different trays, meant for them. Coin counter will count the changes.

(iii) Cheque writing machine

This machine only writes on the surface of the cheque, but it shreds of the paper, the being the filled with acid proof, ink such a machine saves time and protects the drawers. Cheque writing machine is also known as cheque protector.

(iv) Cheque signing machine

When there are hundreds of cheques to be signed the cheques signing machines can profitably be used.

(v) Notes counting machines

(e) MAIL ROOM EQUIPMENT

(i) Stapling machine

This is used for affixing letters and enclosure or other pages together.

(ii) Letter opener

This could be a hand- operated device shaped. Like a knife or an automatic device which trims a narrow strips of one edge of envelopes. Many openers will trim several envelopes at one time. Care should be taken when using a device not to destroy the contents of an envelope.

(iii) Letter or parcel scale

To weigh correspondence to ensure correct postage.

(iv) Stamp moistening device

For wetting stamps or envelopes to affix to seal. It is usually a moistened sponge in a container.

(v) Stamping machine

Rolls of stamps are purchased from the post office. The stamps are place in the machine. Water is kept in a part of the machine. The stamps are automatically moistened and affixed on the envelopes as required.

(vi) A date stamp

Which records the date on which the letter was received. It also stamps a number on the letter.

(vii) Addressing machine

Used to print names and addresses on envelopes, labels, wrappers etc regular customers or correspondents small plates bearing the name and address are prepared as stencil or metal plates. They are then passed through the machine for printing on envelopes.

(viii) Shredding machine

This machine destroys secrets and confidential material if no longer required or to avoid them getting into wrong hand.

(ix) Punch

Used to put holes in a document ready for filling

(x) Scissors to cut paper

(xi) Stapler remover to remove pins from paper

(xii) Envelope sealing machine

This is a machine which automatically seals the envelopes. It will dampen the gummed flaps of the envelopes; thus sealing of the envelopes becomes very easy

(xiii) Folding machine

The letters after being signed, reach dispatch section which sends them placing or housing them in envelopes if a large number of letters are there this machine can be used to fold letter in one or two or three parallel for with additional cross folds at a greater speed.

(xiv) Dating machine

Dates are written on the letters by this machine. It is mostly used in offices where a large number of letters are written every day.

(xv) Franking machine

(xvi) Used to print postal stamp impressions on the develops. Where arranged can also be used to print advertising slogans on envelopes as it prints postal stamps impression.

(xvii) Guillotine

Used for cutting and trimming papers to the required size.

(xviii) Composite machine

This performs three functions i.e. folds the document, insert them in envelopes and deals the envelopes.

(xix) Photocopy machine

Used to photocopy reports, correspondence from suppliers and clients and other officer related assignments.

(xx) Laminating machine

used for laminating single documents like license, identity cards certificates etc

(xxi) Binding machines

Used for binding meeting reports, sales reports, list of customers and other documents for the office.

(xxii) Electronic computers

Is an electronic device by which data is processed electronically at great speed. It is used to solve business problems through decision-making techniques it process data and communicate the results.

Uses of computer

A computer is a giant mechanical brain which can process, analyse, store or supply information instantaneously. It can perform the following functions

- (i) To receive one or more programmes of instructions, store them and obey them as and when required.
- (ii) To take new information through one or more input channels and store them for references as required by any of the programmes.
- (iii) To perform any arithmetical calculation, which may be repetitive in nature, as required by the programme.

- (iv) To select and carry out alternative courses of action, according to the information it produces.
- (v) To apply checks to the data it receives or produces and if a test indicates a failure, produce a record or signal to produce human intervention.
- (vi) To store the data produced for future reference.
- (vii) To select information from the store arrange it in any sequence, and discharge it through one or more output channels to be printed for human use, or to be recorded for subsequent computer uses. Also a computer can be used for preparation of payrolls, stock control, sales and purchase accounting records, costing, budgetary control, production control, hire- purchase accounting etc.

Advantages of computer

- (i) It possesses a high speed in operation.
- (ii) Many staff members can be substituted with a computer. Thus, operation costs are reduced.
- (iii) There is greater accuracy of work.
- (iv) Since information is correct, sound future policy can be drawn.
- (v) Monotonous jobs of the staff can be removed by computers.
- (vi) Any type of complicated calculation can be solved with advantages.

Disadvantages of computer

- (i) Initial cost is very high.
- (ii) If installed, maintenance cost is very high.
- (iii) Trained, experienced and capable staff are very rare if available, high salary is to be paid.
- (iv) Breakdown is very common.
- (v) If errors happen, it is very difficult to correct them.

OFFICE STATIONERY AND FORMS

Stationery:

Is a general term referring to all writing materials used in the office. Almost the whole of the work done in an office involves the use of stationery. Stationery items include papers, stencils, pins, pens, clips, ruler, erasers, carbon papers, typewriter ribbon etc.

The purchase, storage and issue of stationery may be controlled by the office manager. It is an area where costs and wastage can be very high. It is therefore, necessary to maintain effective control on use of stationery to reduce cost and ensure that the stationery projects the correct image of the company.

Stationary control

The office workers should be provided with the best stationery items in order to produce the best work.

The following points are to be borne in mind in controlling office stationery.

i. Cost

The cost of the stationery not only includes the price paid but also includes the interest on capital tied up, labour cost of keeping the items, depreciation of storage equipment, etc therefore e, a proper control is essential to keep down the cost to the minimum.

ii. Avoidance of wastage

Wastage in stationery may happen because of careless handling, deterioration of items, poor quality, over-stocking etc. All these are to avoided. Proper control of stationery must be followed by proper issue control

iii. Standard

Standard items alone should be purchased substandard items bought have, less life and go waste soon. The envelope and letter if of poor quality will repel the readers.

Management of office supplies

In order to achieve effectiveness and efficiency in office operations, proper management of supplies is a must overstocking or under-stocking of supplies have their own demerits if they are purchased in abundance (over-stocking).

Demerits/disadvantages of overstocking

- (i) Bigger amount of capital is blocked.

- (ii) Extra storage space is needed.
- (iii) Risk of obsolescence.
- (iv) Risk of obsolescent.

Guide-lines to ensure that the stationery in the office is not overstocked or run out of stock

- (i) The stationery should be bought centrally and in bulk to secure quantity discounts, but overstocking should be avoided.
- (ii) The issuing system must be planned properly to eliminate wasteful consumption as fair as possible. Before issues are made requisitions must first be received, signed by authorized officers and some sort of records kept to record the movement of stationery in a given period and by each section.
- (iii) The proper control over the use of stationery must be included in the duties of office supervisors. This is done by drawing a budget for each section and section heads ensuring that they operate within the budget.
- (iv) The stock must be maintained as little as possible, bearing in mind quantities for economic buying and constant supplies.
- (v) The good quality paper must be used for important documents to customers so as to maintain the company's good will. This is achieved by avoiding false economies.
- (vi) The possible re-use of stationery items (like used envelopes, for internal mail used pins and paper chips) should be explored.
- (vii) The stationery storage must be arranged so as to prevent deterioration, and to save space, lighting and heating.
- (viii) The stock levels must be set out to avoid running out of items of stationery which are important or over-stocking.

OFFICE FORMS

Definition:

A Form is a printed piece of paper or card on which entries are made against marked headings.

Or

A form is a standardized record used to accumulate and transmit information for reference purposes. Examples of forms are factory orders requisition, bills, quotations, orders etc.

Importance of forms

Forms serve as the vehicle by which various data are collected and brought together for use by management. That is why; they are also described as the basic tools of the office. Nothing happens in the office except to, or by means of pieces of paper. Forms are the medium to bear the record of the enterprise and serve as the basis of records management. Information can be collected, processed and supplied in a systematic way with the help of office forms. Forms increase the efficiency of office work and help in achieving economy in office operations.

SIGNIFICANCE OF OFFICE FORMS

- (i) Clerical work becomes easy.
- (ii) Output can be increased.
- (iii) Unnecessary information means waste of time. This can be avoided by adopting printed forms, with necessary queries.
- (iv) Collection and compilation of statistical data become easier to study from the information form than from a letter.
- (v) In a printed form, the writer has to fill in all the columns, so as to finish information without suppression.
- (vi) The writer or the typist can be at ease in filling the forms in the appropriate place, by writing a few words.
- (vii) Understanding and transmission of information from the forms are quick and clear.
- (viii) They help to identify records and facilitate easy filing for future reference.
- (ix) Data entry, processing and reference becomes easy.
- (x) They facilitate rapid processing of data since information appears in a standard form and at fixed places.

ADVANTAGES OF FORMS

- (i) Only necessary information can be had through the form and irrelevant information can be avoided.
- (ii) The work of the writer or the typist who is to write or type the information in few words is made easy. It is easy for him to fill in the required information correctly.
- (iii) There will be no difficult in analyzing the data collected through the forms. If it is in a letter form, there will be much difficulty in analyzing and understanding the data collected.
- (iv) The presentation of information will be uniform which accelerates the clerical job.
- (v) Forms reduce the cost of operation work in the office.
- (vi) Forms are helpful to fix the responsibility of the work done(forms are duly signed by the writer).
- (vii) Transmission of information, which is based on the forms will also be correct.
- (viii) Forms make for uniformity in appearance and format. They facilitate identification of records and simplify filling and sorting operation.
- (ix) Forms make clear what information should be gathered. Thus, office forms simplify office systems and routine.
- (x) Since forms preserve records, they aid the organization in better planning.

To make the forms more effective

- (i) Forms should be properly designed and drawn up, to avoid confusion in the mind of the writer.
- (ii) Forms should be predetermined with all necessary columns, to avoid waste of energy and time.
- (iii) Forms must be simple and easy to understand; otherwise it will be tedious to fill in.

TYPES OF FORMS

Forms may be classified as follows

1. On the basis of operation or function on performed by the form, as function performed by the forms, as for instance, purchase form, material requisition form, application form. Etc

2. On the basis of use of forms

(a) Internal office forms.

Which are received or used by the employee of the business, for examples accounting forms, application form, memorandum form, requisition form etc.

(b) External contact forms.

Which are sent to customers, creditors etc for examples, form purchase order form etc.

3. On the basis of copy

(a) Single copy form

Which are complete in themselves and often become the source documents.

(b) Multiple copies forms

Which are made in duplicate or more copies and which may be used to transmit information or serve the function of providing additional records.

FORM CONTROL

Meaning;-

Forms control is a means of exercising management control over the costs of producing and processing forms. Forms are important in any organization, therefore, there should be proper management control of them to ensure that they are efficient and economical in design as well as in use.

Objectives of form control

The following are objectives of form control, in brief

- (i) To ensure regular supply of various forms.
- (ii) To economical use of forms for the firm.
- (iii) To reduce clerical work.
- (iv) To minimize the use of number of forms.
- (v) To make necessary changes in the existing forms if they are not satisfactory.
- (vi) To make reviews, whenever needed.
- (vii) To introduce new forms which are really necessary.
- (viii) To retain and use only those forms that are necessary for office systems.
- (ix) To study where the introduction of new forms or revision of old forms is essential.
- (x) To evaluate forms design on the basis of time required to use them
- (xi) To review periodically all forms in use to find out their current utility.
- (xii) To eliminate absolute and irrelevant forms, to consolidate different forms doing the something and to introduce only such forms that really necessary.
The form no longer required, should be disposed of after obtaining proper approval of the officer concerned, the approval will be pasted on the form. In the form book, marked as dead if possible along with date.

QUESTIONS

1. Discuss the need for and importance of stationery and supplies in office work.
2. Describe the complete plan of stationery control.
3. Forms are the basic tools of all office works discuss the statement.
4. Forms are foundations of clerical system explain.

5. Why is control of forms desirable?
6. What are the advantages to be driven from the use of office forms?

QUESTIONS

(Office machines furniture and equipments)

1. What factors would you take into account in deciding whether to go for the purchase of labour-saving devices for office?
2. Describe the important labour-saving devices for smooth running of the office work.
3. What are the objects of introducing office machine? State the relative advantages
4. In selecting a machine, what are the points to be considered?
5. State the criteria for the selection of office machines?
6. What are the uses of computer?
7. What are the benefits obtained from the use of computer and show its limitations.
8. What are the advantages and disadvantages of office machines?
9. Explain the uses of a computer and how it helps in the modern business.
10. What is office furniture? Discuss the main components of office furniture.
11. Discuss the factors which influence the choice of office equipment.
12. Discuss the importance of the records of equipment, machines and stationery.

RECORDS OF EQUIPMENT, MACHINES AND STATIONERY

Proper records of office equipment, machines, furniture and stationery must be maintained adequately. These records serve the following purposes:

1. These records ensure the proper use of all assets of the firm.
2. These records prevent the theft or misuse of some items as the appropriate action can be taken to locate them without delay.
3. The records help to find out the correct value of assets of the company.
4. These are needed to ensure the expenditure incurred on these items.
5. These avoid the wastage or inappropriate use of stationery.

RECORDS MANAGEMENT

Records

Meaning

Records are written data that are made for possible future use.

The records may be classified into:

- (a) Personnel records
- (b) Correspondence records
- (c) Accounting records
- (d) Legal records
- (e) Other business records

Records management

Is the management control of records much more than the methods of filing or the systems of classifications, important of these are indexing, central filing, records retention follow up and micro-photography, all these receive attention in the present day office.

OBJECTS(PURPOSE) OF MAINTAINING BUSINESS RECORDS

(i) Policy making.

Past records event, progress, etc are very necessary to decide future policies and plans. in the absence of records, the policies and plans may not be successful.

(ii) Comparison of business (period wise/state wise)

Past records make it easy and possible to compare the performance of one period with that of another period, one place with another, one result with another, etc by comparison, one can know whether there is progress or not.

(iii) Proper study of the position of the firm.

Records of past transactions are the basis on which further study can be made. The preserved records are the contributory factors, without which a good and proper study of the position of the firm cannot be made and statement can not be prepared.

(iv) Accounts of progress kept in an orderly way.

To measure the progress of the concern or to find out other facts, a history of the firm is needed. And the past records, history of the business, recount the dealings.

(v) In case of disputes.

The need for referring to these records or documents often arises for the settlement of disputes in transaction. All information can not be remembered.

(vi) Legal requirements.

Certain records are to be kept for a number of years from the legal point of view.

(vii) Evidence

Records are good evidence in the court of law, in the case of suits.

(viii) General use

Some customers may simply refer to the previously correspondence by quoting the number and date. In such case, if the letters have been filed properly, it easy to comply with the needs of the customers otherwise, there is a wastage of time and money.

(ix) Facilitate to detect errors and wastes and identifying the wastes occurring in the organization. Thus management can eliminate the errors or wastes.

PRINCIPLES OF RECORD MANAGEMENT

In order to be successful, the record management must be based on the following principles

1. Verification.

Records can be verifies whenever needed.

2. Justification.

Records must be maintained with some justifiable purpose. Otherwise, it will be a waste of money, space and time.

3. Classification.

Records must be classified according to their use. It may be classified according to time or chronological or subjects.

4. Information.

The required information must be available whenever needed.

5. Elasticity.

The record system must be elastic in capacity so that expansion or contraction of records is possible.

6. Reasonable cost

The cost of record management must be reasonable one. For more important records larger amount may be spent and for less important records only small amount should be spent.

Other definition of records management

Records management refers to the activities designed to control the life cycle of record for its creation to its ultimate disposition

Stages of life cycle of records

1. Creation stage

The first stage involves design and control of office forms. Data should be recorded in the forms accurately and completely. The time period for which the records are kept should also be determined properly.

2. Storage stage

Under this stage records are properly classified and put into appropriate file covers. The records should be stored at accessible location and arrangements should be made for their protection.

3. Retrieval stage

The purpose of maintaining records is to make them available for future is to make them available for future reference. Therefore,, an efficient filling procedure should be designed to retrieve the records in time. There should be a proper procedure for the issue of files.

4. Disposition stage

This stage is concerned with disposition of obsolete and unnecessary records. Valuable documents are preserved, in water-proof and fire-proof cabinet. The documents which are no longer required should be destroyed. Less important records which are not in current use should be transferred from high cost storage area to low cost storage area.

ESSENTIAL OF RECORDS MANAGEMENT SYSTEM

In order to achieve the above mentioned objectives, record keeping must have the following essentials:

1. Simplicity

There should be simplicity in record keeping. Records should be maintained according to the requirements of the organization so as to facilitate comprehension.

2. Accuracy

Records should be preserved accurately so as to reduce the chances of errors and frauds.

3. Economy

Cost of maintaining and providing records is also an important factor which the office manager has to keep in mind.

4. Usefulness

Record should be useful for better management of the affairs of the business. Record-keeping should avoid retention of papers not needed.

FILLING

Meaning:

Is a system arrangement and keeping of business correspondence and records so that they may be found and delivered when needed for future reference

Or

Filing is a process of classifying and arranging records so that they can be without delay

Objects (purpose of filing)

- (i) It keeps the records, protects letters and documents.
- (ii) It makes past records easily available.
- (iii) It provides suitable storage functions.
- (iv) Proper filing leads to economy in space.
- (v) It improves the appearance of the office considerably.
- (vi) It is less expensive and consumes less time to take out records.

FUNCTIONS OF FILLING

Functions of filling can be classified into:-

1. information function

Records are protected and maintained to supply information.

2. administrative function

Files help the executive in framing business policies. For this previous records are maintained.

3. library function

The records are stored for future references. Thus it performs the Library function.

4. Historical function

Files preserve important records of the progress of the business in a systematic manner. Thus it performs historical function.

Advantages of filling

An efficient filing system claims the following advantages:

- (i) Often customers refers to their past letters or orders by writing only the date and in such cases filling serves purpose of ready reference.
- (ii) When past records are maintained through a good filling system they save time and also increase efficiency.
- (iii) A proper filling system safeguards the documents against loss.
- (iv) Old or past records save as a reliable basis for future planning and action.
- (v) Past records are good evidence in a case of disputes.
- (vi) Certain documents are to be kept in order to fulfill legal obligations.
- (vii) A proper control is facilitated. According to the importance of letters they can be disposed of quickly.

ESSENTIAL OF A GOOD FILLING SYSTEM

(Characteristics of good filling system)

An efficient filling system should have the following essentials/characteristics:

(i) Simplicity.

It must be simple in operations, so that every staff of the office can easily understand the filling system.

(ii) Suitability.

The filing system should be completely applicable to the firm concerned and suit the nature and requirements of the business for which it is introduced.

(iii) Accessibility.

The files should be so arranged that the required letter or document for reference be picked up without loss of time. Of course it is possible through a good index system.

(iv) Protection (safety).

The filed documents must be available to the person, who needs them. They are easily available when they are filed properly and securely.

Documents should not be damaged by dust, insects,thefts, mishandling, fire, rain etc.

certain documents have to be kept for a longer time
or for the life-time of the concern. They must be housed in suitable equipment.

(v) Economy.

Cheap system of filing is to be adopted. The cost incurred by the system must be proportionate to the results obtained. The desired result must be obtained by using minimum finance, time, clerks etc.

(vi) Adaptability.

The system must be adaptable to the changes that occurs in business.

(vii) Less space.

Economy of space is of great importance in all concerns, because of the high rent. So it is necessary to see that the system requires minimum space . for this dead papers, older files which are not at all needed should be removed. A regular removed of such documents and files can save space.

(viii) Cross- reference.

References should be provided where necessary. Files removed should be noted on out guides and know with who the missing file is lying.

(ix) Elastic/flexibility.

If there is any expansion of work in the business concern, then the filing system can be expanded. So it must be flexible.

(x) Compactness.

It should not take up too much space especially floor space for the filing cabinet.

(xi) Co-ordination and control.

A good system of filling must permit constant co-ordination among all departments and to have an effective control over.

(xii) The guide.

Whenever a file or document is taken out, an indicator should be placed at the same place, if possible with signature of the recipient, to

show the file or document has been removed. When it is returned, the indicator will be removed.

PLANNING OF FILING SYSTEM

The mode of filing system should be formulated on the basis of objects and nature of records. When one prepares a system for filing, the first job is to make out a list of records and documents to be stored. The following steps may be considered while planning a filing system:

1. Period of storage

The period of storage must be determined with the consultation of various departmental heads of the organization. All documents are not needed for a long time while others may be needed for a considerable time.

2. Storage space.

Nature of the organization and availability of funds are the basis to layout a storage plan. Arrangements should also be made to protect the records from losses or damages.

3. Arrangements in storage.

Storing arrangement should be kept in a view of the frequency of use of the documents and departmental heads who will need the records.

4. Determining equipments need.

Various types of filing equipments should be produced to store the records. Availability of funds and importance of records decide the choice of filing equipment fire proof equipment must be preferred.

5. System of classification.

A proper system of classification adopted is to be selected. The system should be simple, economical and efficient.

6. Training.

Proper arrangements should be made to train the staff who handles the files. The filing procedure should be designed to fit the needs of the organization.

ORGANIZATION OF FILING

The filing function should be organized in such a way that it helps in proper maintenance of records. It is important to note that the records

should be made available whenever required. The office manager has to decide whether the filing should be centralized or decentralized.

Centralized filing and decentralized filing both have their own merits and demerits.

1. Centralized filing system

Is a system where all records relating to the various departments of a concern are filed at one place or in a central office. In other words, individual departments or sections of an organization do not do the filing of records.

Merits of centralized filing

- (i) It is put under control of specialists and this facilitates more efficiency.
- (ii) Space available is used economically.
- (iii) There will be effective control over them.
- (iv) There will be no duplication of filing equipment and work (as in decentralized system) and as such there is economy in filing.
- (v) There is uniform standard to file the papers and to take them out. This enables speed location of documents.
- (vi) People, who do the same work again and again become specialists in their work. This adds to greater efficiency.
- (vii) Papers will be filed the same day.
- (viii) The location of missing files or papers is easily know (by proper use of indicator).
- (ix) The location of missing files or papers is easily known (by proper use of indicator).

Demerits of centralized filing system

- (i) When a departmental head is in urgent need of any letter, it will not reach him in time because of the long procedure, this is the main drawback.
- (ii) Errors may creep in.
- (iii) Much time is consumed if the filing department is located in distant rooms.
- (iv) Rigid rules are there in giving and returning file. The rules become more important than the dealings.
- (v) Secrecy cannot be maintained.

2. Decentralized filing system/departmental filing system

Is the filing system in which every department has to keep its own files. Every department installs separate equipment and appoints staff to look after the filing work.

Merits of decentralized filing

- (i) Suitable, simple and easy methods can be adopted according to the convenience of the department.
- (ii) The files are easily and quickly available.
- (iii) Quick availability of file facilitate more efficiency.
- (iv) Secrecy can be maintained.
- (v) Receiving clerk, will file the letter without mistakes, because the has to deal with a few letters only.

Demerits of decentralized filing system

- (i) In one organization, in different departments, different methods of filing will be followed. As such no standard system will prevail.
- (ii) The filing clerk has many other jobs he cannot become a specialist in filing system.
- (iii) Inter-department transfer of clerks will fail to understand the filing system of other departments.
- (iv) If one document relates to two or more departments, there will be difficult in filing a document.

(v) Filing will be done at the convenience of a clerk, who has many other jobs to do along with the filing. As such he may misplace the letters or keep them in other registers or leave them unnoticed.

FILING EQUIPMENT

There is a wide range of equipment available for the storage of information in an organization. Filing equipment consists of covers, folders, filling cabinets, etc.

Purpose of filing equipment

Filing equipment must serve the following purposes

- (i) Protection of document against any loss through careless handling, damage by fire, water or deterioration through dust.
- (ii) Prevention of theft or unauthorized use.
- (iii) Insertion, location and extraction of documents must take less time or effort.
- (iv) Easy traceability of files.

A file is a collection of papers or documents dealing with one person or topic. The equipment in which they are kept is known as file cover or binder

Types of file covers

(i) Box files

These have a solid box- like construction and a spring loaded compression pad which holds down the filed material firmly. Box files may be used to keep letters leaflets, catalogues, e.t.c

(ii) Lever arch files

These contain metal devices opened and closed in the centre of the folder operated by the lever.

(iii) Concertina files

These are made up of number of succession pockets into which similar documents can be collected ready for processing. They are suitable for temporary documents awaiting processing like petty cash vouchers

and such documents which do not need to be purchased
eg. Certificates etc.

(iv) Ring binders

These are made of hard covers and two or more rings which open to allow the insertion and removal of documents.

Filing cabinets

Several kinds of filing cabinets are in use, the common one being vertical, horizontal, lateral and circular.

(i) Vertical filing cabinets

These are fitted with drawers in which files or folders are kept in vertical position. The cabinet may accommodate fullsize paper papers, A4 or A5 tab cards or micro films. They are either made of steel or wood. For security purposes, cabinets are also provided with special locking devices including combination locks.

(ii) Horizontal filing cabinets

These are made of several drawers in which files or folders are laid horizontally. They are used for storing stationery, photographs, maps, stencils, drawings etc. as for files. This is because files are on top of each other which makes it difficult to refer to the document.

(iii) Lateral filing cabinets

These are made of suspended filing packets and files kept in their vertical position. The filing cabinets are held laterally along the shelves of the cabinet, rather than in drawers.

(iv) Circular rotary filing cabinets

These enable a great many records to be filed in wallets or pockets around a central vertical pillar. They economize space very accessible and can be used by several filing clerks at the same time.

FOLDERS

Folders are the basic of vertical filing they are made of manila paper or some other strong paper and are used to hold papers and documents.

FILING METHODS

This refers to how file cover or binder are kept in the filing cabinets

Factors influencing the choice of filing methods/systems

- (i) Simplicity- to be affordable to new employee.
- (ii) Elastic- room for expansion and capacity to accommodate new files.
- (iii) Cost- cost of keeping files should be minimum.
- (iv) The number of file and documents to be retained.
- (v) Reference- there should be easy reference of documents.

Filing methods/systems include:

1.Flat/horizontal filing.

Is the keeping of files in the drawers, racks or in shelves when one is on top of, another lying horizontally.

Advantages of horizontal filing

- i. It is simple to operate. It is easy to file documents.
- ii. It facilitate easy references of documents as they are filed in chronological (date- wise) order.
- iii. It is flexible system.
- iv. It can keep letters in proper order with the help of spring fastening device.
- v. The letters can be referred without moving them from the file. Thus, risk of being lost is maintained.

Disadvantages of Horizontal filling

- i. It is unsuitable where the volume of records is very high
- ii. To take out any proper , other papers have to be dislocated as the paper are kept in the order in which they are received.
- iii. When a large number of papers are stored in one file, their location becomes somewhat difficult.

- iv. This system is less flexible and takes more time as compared to vertical system.

2.Vertical filing

Is the keeping of files within the drawers, racks or in shelves when they are standing up-right north to north

Advantages of vertical filing

- i. Vertical filing allows ready reference of papers and documents. The heading of each folder is visible from the extended edge of the back- sheet.
- ii. It is really adoptable. The folders can be arranged according to any classification such as alphabetical numerical and subject-wise.
- iii. It is economical compared to the horizontal equipment as it can accommodate more papers.
- iv. It provides ample scope for expansion while installing this type of equipment adequate provision for expansion of the number of folders can be made in the drawers.

Disadvantages of vertical filling

- 1. Vertical filing is not as fast as the other methods of filing such as visible card filing and rotary card filing.
- 2. There is always a possibility of folders shipping down the drawers. This may lead to unnecessary wear and tears of various folders.

3.Suspension filing.

Is the keeping of files vertically while metal bars are affixed on sides of a filing cabinet drawer to prevent them from falling off from the filing cabinets.

4. Lateral filing.

This is where the files are stored on shelves or on pockets suspended side by side from frames.

5. Open shelf filing

Is a method of filing in which open shelves are used in the library to store folders. Under this method open shelves or wooden or steel racks are utilized for keeping files and papers. In open shelves, filing may be done horizontally or vertically, and any method of classification may be

adopted. This method of filing is especially used where papers are kept in envelope of packets or some other covered jackets.

6. **Visible card filing**

This method use a visible card equipment. This equipment is developed on the principle “look at the record, not for it” the main characteristic of visible filing is that, the main reference on each card is visible at all times. Generally , the cards are laid in a flat shallow tray or in a metal hinge.

The cards are put in transparent covers before arranging them in trays. Each card is so arranged into a metal hinge that it overlaps the one before it in such a way that a narrow strip at the bottom containing name, telephone number of the subject remain visible.

CLASSIFICATION OF FILES

(Classification system of documents)

Classification system is the basis of arranging documents in the folder.

Or

Classification is the process of selecting headings under which documents are grouped or classified on the basis of common characteristics before filing takes place.

CHIEF METHODS OF CLASSIFICATION OF FILES

1. Alphabetical classification

This is where documents are filed according to the first letters of either the name of sender or the subject. The arrangement is similar to words in an English dictionary or names in telephone directory. If a number of files are kept, each file is given a title and the files are arranged in the alphabetical order in the filing cabinet.

Advantages of alphabetical classification

1. Training is not needed for the clerks to perform the filling.
2. It is easy and convenient to group papers by names of persons, firm, products etc.
3. Direct filing is possible without the help of an index. It is self-index.
4. Files can be located immediately.
5. Number of files can be reduced or introduced without disturbing the classification.

Disadvantages of alphabetical classification

1. In large systems it takes longer time to find papers.
2. Mistakes creep in under common names i.e when there are several persons having the same name.
3. There is also difficult if the names are mis-spelt.
4. For large organizations, papers may be reasonably be filed under different headings.
5. It is difficult to forecast space requirements for different letters of the alphabet.

2. Numerical classification

In this system documents are arranged according to numbers rather than letters. A number is allotted to each customer and the same number is put on all papers or documents relating to transaction with him thus, the number allocated to each correspondent becomes his file number. If one file contains records of more persons, decimal system may be used e.g. 21.1 donates one person; 21.2 donates another and so on and these are file No.21 an index is necessary for locating the correct file.

Advantages of numerical classification

1. Accuracy in filling system is greater.
2. Reference is made by numbers.
3. They have unlimited possibilities for expansion. New documents are added to the file as they arise.
4. If files are misplaced, it can be noticed promptly.
5. It is easy to operate, numbered files can easily be located and arranged serially in comparison to alphabetical index.
6. The filling index may be used for other purposes (for example a mailing list) as well.

Disadvantages of numerical classification

1. Transposition of figures causes mis-filing.
2. A separate index must be provided.
3. It takes time for a new employee to fully understand the system.
4. Filing and finding is indirect.
5. It takes longer to file material as it involves two operations i.e the recording of paper number on the card index and the filing of the document.

3. The alphabetical- numerical or alpha- numerical classification

It is a combination of the alphabetical system and numerical system. In this system and numerical system. In this system each letter or sub-letter is given its own number and an index card is placed behind the guide card for each alphabetical section. The names and numbers of all the folders are mentioned in a numerical order behind each card. The coloured guide cards are used to sub-divide for folders into groups to

facilitate their speedy location. The names and numbers of all the folders are mentioned in a numerical order behind each card. The coloured

guide cards are used to sub-divide folders into groups to facilitate their speedy location for instance, all files are arranged alphabetically and

the first group is Aa- Ag. The folder of ABC firm, Agra book stores are first and second in order within this group; the first folder will bear the number A/1 and the second folder will bear the number A/2 and so on.

Advantages of alpha-numerical classification

- i. It has all the advantages of the alphabetical and numerical classification.
- ii. It is an elastic classification.
- iii. It facilitates quick reference.
- iv. Geographical classification.

4.Geographical classification.

Is the arrangement of files according to their place of origin. For example files can be arranged by countries, towns or by province in a country or by districts in a province. Files within each group are arranged alphabetically. This system is generally profitably used by banks, insurance, departmental stores etc.

Advantages of geographical location

1. It is simple to operate.
2. Statistical data can be collected easily.
3. Suitable for companies that have several branches spread over different parts of the world or a country. For example, oil companies and commercial banks.
4. Convenience of reference where the location is known.
5. Direct access for filing purposes.

Disadvantages of geographical location

1. Possibility of error where knowledge of geography is weak
2. Geographical location must be known in addition to correspondent's name
3. Index necessary for occasional reference

5. Subjectwise classification

In this, records are filed according to the nature of their subjects or contents. Papers are first arranged subjectwise and then in alphabetical order.

Papers on a particular subject are arranged and put together, rearranged alphabetically or numerically and filed accordingly, there may be order file invoice file, complaint file, e.t.c

For examples:-

Main subject classified:

Purchase

Sales

Promotion

Sub-division of classified subjects:

Sales- cycle parts

Sales- scooter parts

Sales – motor parts

Advantages of subjectwise classification

- i. All documents referring to a particular subject or matter are kept together in one place.
- ii. The files can easily be expanded or contracted by simply adding or subtracting old ones.

Disadvantages of subjectwise classification

- i. Determining the of divisions is difficult and requires someone with a knowledge of the business and its files.
- ii. Determining under which subject heading it should be filed requires a trained and careful employee.

Chronological classification

Under this system various records are identified and arranged in strict date order and sometimes even according to the time of the day. For examples, newspapers, current prices, market reports, e.t.c.It is a useful system if dates are known.

Advantages of chronological classification

- i. Useful if dates are known.
- ii. If provides for unlimited scope of expansion.

Disadvantages of chronological classification

- i. It is not always suitable.
- ii. Incoming letters might become separate from outgoing ones.

Factors influencing choice of a filing system

The method of classification to be used will depend on the need of the business concerned. The following are general guide-lines for any organization to choose a classification system.

1. The number of files and documents that need to be retained.
2. Simple in use and easy to explain to a new employee. It should be the one could take up after a brief explanation e.g Alphabetical filing.
3. There must be room for expansion and capacity to accommodate new files without the need to change the existing documents(i.e. their sequence order).
4. There must be easy reference and minimum possibility of misfiling.
5. A document need not have more than one file or filed under different subjects.
6. The cost of keeping files must be minimum. Filing classifications have different equipment and maintenance costs of keeping them.

INDEXING

Indexing means to guide something. An index is an indicator, indicating any subject matter. In filing, index helps the location of any letter, record, files et. Thus it provides quick reference, which is essential of a good filing system. A index can be seen in almost all books, in last pages. The index will indicate the pages. The index will indicate the page number, where the particular subject is dealt with. An index is device for finding the position of a document or file in a system quickly and easily.

Difference between classification and indexing:

Classification is a method of filing and the manner in which the files of different subjects are arranged.

While

Indexing is a method of making reference to the files. An index is a finding tool. It furnished the key as to how the material are arranged.

Importance of indexing

- i. Indexing is an essential part of a good filing system as it is a guide.
- ii. It provides a ready reference.
- iii. It facilitate easy location of files.
- iv. Even if the files are arranged in self- indexing method index will further speed the work.
- v. It possesses minimum information.

Essentials of a good system of indexing:

A good system of indexing should possess the following essentials

1. It must be simple to operate and use

2. It must be economical in terms of money, space and effort
3. It should be flexible to allow for expansion
4. It should allow for speed
5. It should be suitable for the particular business
6. It should have locking arrangement

METHODS OF INDEXING

The following are the important type of indexing:

1. Bound book index

This system normally consists of a bound book, each page of which is allotted one letter or more letters of the alphabet. Each page of this book has a tab which indicates the letter or letters of alphabet allotted to it, for example, if it is desired to see the number of the page in which the account of Mr. Anil is kept, the page marked 'A' will be seen or against the name of Anil will appear page number, that is, page number on which Anil's account appears.

Such an index may take the form of a separate book or an index in the front or at the back of the book. A bound book index is a very simple method of indexing. No special training is required for office clerks to operate it. The pages cannot be lost as they are bound.

2. Vowel index

Here each letter of the alphabet is sub-divided into six divisions according to five vowels that is A, E, I, O, U and Y. If there are many names beginning with the same alphabet, they can be again sub-divided on the basis of vowels. For example, Ram's name will be written on the page of the register marked "Ra". The Rekha will be written on the page of register "Re" and so on. This type of index can be used for small and medium size concerns.

Advantages of vowel index

- i. It is a permanent record.
- ii. It is safe, because it will not be lost.
- iii. It is always in the register itself and no time is spent in searching the index.

Disadvantages of vowel index

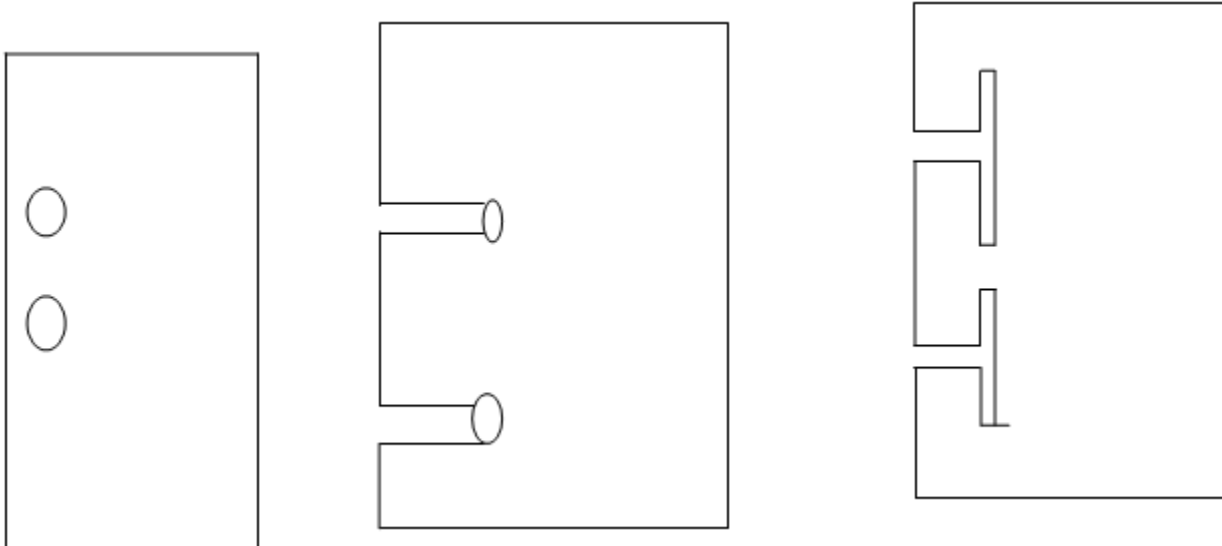
- i. In the book index, the names of persons are written, as and when occurred. So it takes much time to search a name. There are many pages allotted to the same letter. But vowel index is an advantage.
- ii. The system is inelastic.
- iii. The names of the persons, who are not dealing with the firm have to be struck off.

3. Loose leaf index

This is another form of book index. Loose leaf is a sheet ruled like the pages of ordinary index. The sheets are inserted in or taken out from metal

hinges or screws, as and when required. It is arranged as the library card index system. Each person (correspondent) is allotted a card on which the name of the person, the address, the file number etc are entered. The loose leaf index diagrammatically.

Examples of loose leaf index diagrammatically



Advantages of loose leaf index

- i. Index of dead files can easily be removed.
- ii. The system is elastic.
- iii. Complete information can be had.
- iv. Additional information can be written or typed easily.
- v. It save time and material.
- vi. It is very economical.
- vii. The dispatch of monthly statements and trade circulars is easy.

Disadvantages of loose leaf index

- i. It is possible that cards, are torn quickly by constant use.
- ii. Equipments are needed to keep the cards, therefore this system is expensive.
- iii. There is possibility of cards being misplaced, when they are inserted or taken out.
- iv. For small firms it is a mere waste.

4. Card index

This is another method of preparing index. The index is prepared in cards, each card is allotted for one information e.g. customers, firms, etc.

the details of the reference are shown on cards. Cards of equal and uniform size are used. The cards may be of different colours of getting a

good appearance or for distinguishing one group of cards from another. The card bears the number of file and the names of references along

with particulars. The cards are placed in drawers, which are specially made for them. The cards are arranged in the dictionary order. E.g. if the

file of Rama medical is to be taken of, first we have to look for the card, in the index drawer under Ra section indicated by the guide card, Ra.

After a look at the index, the file number of Rama medicals can be known. Then find out the file from the filing cabinet. The cards are kept in

drawers. A rod is put through them to hold the cards. So the chance of misplacement is reduced. The cards may be placed clerically or horizontally.

Advantages of card index

- i. Any type of ruling can be adopted for the cards.
- ii. Insertion or removal of cards is easy.
- iii. It is capable of being expanded.
- iv. Location of card is easily.
- v. Rearrangement of card as is possible.
- vi. The system ensures quick and accurate references.
- vii. Foldable card can also be used.

Disadvantages of card index

- i. It is complex and elaborate.
- ii. There is the danger of the cards being lost or misplaced.
- iii. It is not suitable for small firms.
- iv. It requires special equipment and specialized clerks.

5. Visible card index

The cards are placed flat in transparent covers in a shallow tray or metal frame it is so placed into a metal hinge that the name and address is

visible without touching another card. Then trays or frames are fitted vertically to metal stands or fitted horizontally into cabinet. The cards are

placed according to alphabetical, numerical or alpha numerical order. The writer can write on the card (either on the back or on the front) without removing it from the frame.

Advantages of visible card index

- i. It is compact and requires less space.

- ii. As it is visible, there will be speed in work.
- iii. It is useful to management as it provides quick information.
- iv. It helps management in controlling purchases, sales e.t.c
- v. It gives a list of customers easily visible to the eyes on the frame and requires less expense and minimum effort.

6. **Wheel index**

Is a system according to which cards are mounted round the hub of a wheel. The wheel moves or rotates on ball bearings. When a particular file is needed, the wheel is rotate and the required card referred to this system is economical as well as flexible.

7. **Strip index**

This system consists of strips of cards or thick paper fitted in a frame in such a way that the strips can be taken out or inserted. The frames are fixed in a shelf or in a book form. Dead strips can be removed and new strips can be inserted.

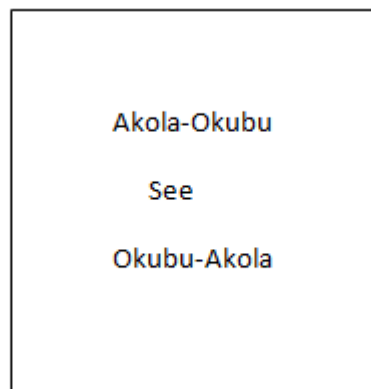
Cross-reference

It is possible for a correspondence to be filed in 2 or 3 different files, but only one copy is available. A good cross- reference system is needed. It

is in the form of card or folder directing a person to where a document which can be filed under more than one file found. For example, a letter

Akola- okubu might be filed under Okola- okubu file or in Okubu –Okala file. Where a letter from Akola – Okubu is filed under Okubu- Akola file, a cross-reference card put under Akola- Okubu file to direct where it is located.

e.g



-cross-reference
card.

selection of suitable indexing system

Every system of indexing has its own merits and demerits. Some methods are rigid while others are flexible though expensive. The installation of a suitable indexing system depends mainly on the following:

- i. The type and the extent of information needed.
- ii. Cost of equipment in each system.
- iii. Cost of labour in each system.
- iv. The requirement of space required for each system.
- v. The frequency of adding or deleting.
- vi. The purpose of keeping an index.

Marking absent files

If a file is likely to be removed for a couple of days, “marked’ folders should be inserted in the place to collect any papers referring to the absent file. At times, it is referred to as an “out card”. “A loan registry” book should also be used to note down when files are taken out. The names of the person who has taken it, noted, when returned , a signature by the loaner will cancel the entry.

Released for filing

Before letters can be filed, they must have been replied to any person responsible for replying letters will usually mark in the corner of the letter with an agreed upon release symbol i.e letter ‘F’ putting his initials, etc alternatively he will place it in a basket that is labeled “for filing”.

Retention of records

Documents and records are not all expected to be kept permanently in the filing cabinets. When records become destroyed or transferred to reserve storage. Because of small space available for storage. Because of small space available for storage, unnecessary records should never be held for unduly long periods. This does not mean that records that may be needed later are destroyed. For this reason, organizations have specific period of time, records are expected to be kept in the organization. That is what is referred to as “the retention period” such retention periods should be noted on the records and extracted from the cabinets on the expiry periods.

The length of period for which records are retained depends upon cost, space, future need and nature of the documents enough space is available and these records are needed in future then these can be retained for a longer period and vice versa.

MICRO-FILMING

This is a method of retaining or keeping information by photographic records to produce them when needed. The records are micro- photographed and kept either on roll film, micro fish a picture or card or jacket. When needed for reference, the negative is shown on a screen or a copy can be made micro-filming is only important when a great multitude of permanent records must be kept e.g in office of registrar of births, records of rainfall e.t.c

Advantages of micro-filming

- i. Saves space and weight-bulky files are replaced by compact cartons of films.
- ii. Documents can be sent abroad. Micro-filming reduces cost of postage if information has to be sent by expensive air-mail.
- iii. There is little risk of misplacing there is no possibilities of records on micro-film to be misfiled as it would be with lose papers in a folder.
- iv. A film is more durable than paper and provides a much more permanent record film is more wear- resistant than paper.
- v. Film can be enlarged on to paper, thus providing quick and accurate duplicate copies of the original documents.
- vi. There is saving in filing equipment as well as floor space.

Disadvantages of micro-filming

- i. Relatively slow because the film has to be viewed through the reader (a machine with projects the film on to a screen).
- ii. No indexing is possible and thus location of a particular frame may be difficult causing delay and frustration.
- iii. Micro-filmed information cannot be altered which is a disadvantage because sometimes it is necessary to make corrections or make insertions to the stored information.
- iv. There is great loss in case of one film I lost as one film will be keeping so many documents.
- v. In case of poor processing with stale chemicals, the film may be unreadable.

Filing documents in the computer

A computer can store work in the same way as a conventional filing system. The document in a computer are kept in folders. The computer can be called an **electronic filing cabinet**. Within folders are sub-folders that works like drawers in the cabinet and helps you organize the different

areas of your work. For example if you create a folder for office work, you could then create sub-folders for business correspondence and accounts.

As with any filing system, its vital to organize it well right from the start. You should first decide which folders you are likely to need. Begin by creating a folder for each area of your work. You can then decide which sub-folders to create.

In a well organized system, it becomes easier to save and retrieve your work, whether in office or home. You can access your computer filing system through a handy facility called “window explorer” through this you can move folders

and files around, make new folders and even copy or duplicate folders and documents. It is also important that your files should be named logically so that, should you misplace one and not remember its full name, you can still activate a search for it.

FILING ROUTINE

Establishment of a filing routine is essential to avoid misfiling and misplacement of files. It is also essential for any papers bearing the record cannot be handled and preserved without any proper arrangement.

Filing routine refers to receiving papers and documents and placing them in files.

Or

It also refers to issuing files for reference and use.

The followings are the steps in filing routine;

1. Instruction for filing

Some responsible officer should issue an instruction for filing papers. The authorized officer should write “file” on the paper along with his signature and date. no document should be filed unless this produce has been followed.

2. Classifying

The responsibility for deciding the heading under which an document should be filed must be clearly defined. This task may be done by the senior filing clerk or by the executive himself.

3. Indexing

The documents to be filed are then coded. The cord is written on them and then they are indexed.

4. Cross reference

Sometimes certain documents relate to more than one file. They are to be filed under the most appropriate heading but a cross-reference card is inserted n every other r relevant file for easy referencing.

5. Filling

After the papers have been classified, indexed and codified, they may be filed in the appropriate files or folders in the chronological order.

6. Follow up

Certain documents or papers require a follow-up action, like a letter. The concerned executive put on the follow-up instructions and filing clerk prepares a follow-up slip to act as a reminder. The follow-up document slip is filed in a follow up file along with the, copy of the paper and the original document is filed. The filing clerk sends the needed document to the concerned officer on the specified date.

7. Issue of the file for reference.

Whenever a paper or a file is needed by an executive, he should send a requisition slip, on the receipt of which the filing clerk will prepare a “charge out” slip, he will also prepare “ out slip” ship, he will also prepare on “ out slip” which indicates the where about of the file and is kept in the place vacated by the file issued. The out slip should be taken out when the file has been returned to its place.

8. Disposal of dead files

In office the filing department should transfer the inactive files into the central room but when the paper has become dead, it should be destroyed according to the instructions of the officer responsible for retention of records.