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PAD410: GLOBALIZATION AND NATIONAL POLICIES

What is globalization

Globalization is the process by which businesses or other organizations develop international influence or start operating on an international scale. **Globalization** is the process in which people, ideas and goods spread throughout the world, spurring more interaction and integration between the world's cultures, governments and economies

The demand of New International Economic Order

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

The phenomena that gave an impetus to the demand for a new international economic order in the early 1970s.

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

The most important objectives of the New International Economic Order

The most important objectives of the New International Economic Order based on the proposals of the UN Resolutions include; international trade, technology transfer, regulation and control of the activities of multinational corporations, reformation of the international monetary system and special aid programme, and interdependence and cooperation.

The emphasis of international trade by New International Economic Order

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

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The proposals of the New International Economic Order which led to the establishment of trade transfer

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

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

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

The Reformation of the International Monetary System and Special Aid Programme

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

The International Institutions using Indian economy as a case study

History

Planning as an instrument of economic development in India goes back to for year programme of planned economic development of India. This pioneering work created keen interest in academic circles in the cult of planning. As a result, some more books appeared on the subject by other prominent writers in India. In 1938, first attempt was made to evolve a national plan for India, when the National Planning Committee was set up under the Chairmanship of Pandit Nehru. The work of the committee was interrupted due to the Second World War and the political disturbance following the resignation of the Congress ministries. It was only in 1948 that the Committee could release a series of reports on Planning in India.

Objectives and Achievements of Plans

Objectives: There are various objectives that run through one or the other plan. They are:
(1) To increase national income and per capita income
(2) To raise agricultural production
(3) To industrialize the economy
(4) To achieve balanced regional development
(5) To expand employment opportunities
(6) To reduce inequalities of income and wealth
(7) To remove poverty
(8) To achieve self-reliance

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the performance of Indian Plans in the light of the following objectives; growth, modernization, self-reliance and social justice.

(a) Growth

One of the basic objectives of planning in India has been rapid economic growth. This is measured by the overall growth rate of the economy in terms of real GDP. The overall growth rate of the economy 1950 _ 2006 in terms of GDP at factor cost at constant prices has been characterized by extreme variations from year to year. Consequently, the targets of growth rate fixed for various plans were not achieved except for the First, Fifth, Sixth, Seventh and Eight Five-Year Plans. In the First Plan, the growth rate

(b) Modernization

Modernization of production, diversification of activities, and advancement of technology and institutional innovations have all been part of the drive to change a feudal and colonial Indian economy into a modern and independent entity. National Income: The sectorial distribution of national income reflects the str45uctural transformation of the Indian economy

Agriculture: Modernization and structural changes in agriculture have played an important role in the process of planned development. The country has made giant strides in the production foodstuff especially grains, cash and horticultural crops to meet the consumption requirements of the growing population, the raw material needs of the expanding industry and for exports

Industry: The main component in the drive for structural diversification has been towards modernization and diversification of industr5ies. Over the past 50 years.India has achieved a broad-based industrial development. Apart from quantitative increase in the output of industrial products, the industrial structure has been widely diversified covering the entire range of consumer, intermediate and capital goods

Social Services: Modernization is also reflected in the spread of social services. There has been a significant increase in development expenditure on social services whose share in GDP grew from 3% in 1950 to 28% in 2006.

Self-Reliance: foreign aid, diversification of domestic production and a consequential reduction in imports for certain critical commodities and the promotion of exports to enable us to pay for imports from our own resources. A major constraint towards achieving the objective of self-reliance has been unfavourable balance of payments.

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

At the root of the call for a New International Economic Order lies the dissatisfaction of the Less Developed Countries (LDCs) with regard to trading, financial, technological and other policies pursued by the developed countries towards the LDCs.The developed nations have oppressed the LDCs, discriminated against them, drained their income and denied them access to advanced technology. Such policies have obstructed their development efforts, perpetuated inequalities in wealth and incomes and increased unemployment and poverty in them.

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

(a) A severe energy crisis

(b) The breakdown of the Bretton Woods System in 1973

(c) The disappointment with development aid which was much below the United Nations target of 0.7% of Gross Domestic Product (GDP) of developing countries.

(d) The formation of the Organization of Petroleum Exporting Countries (OPEC) in 1973 and its success in raising oil prices.

(e) The existence of high rates of inflation and unemployment in LDCs

Discuss the advantages of international trade.

(i) establishment of LDC sovereignty over natural and especially mineral resources for export,

ii) promoting the processing of raw materials for exports,

(iii) Increasing the relative prices of the exports of LDCs through integrated programme for commodities, compensatory financing, establishment of international buffer stocks and creation of a common fund to finance stocks, and formation of producers, associations,

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(vii) improving access to markets in developed countries through progressive removal of tariff and non-tariff barriers and restrictive trade practices

The instrument for wealth redistribution

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

The Instrument for Wealth Distribution

-The use of Multinational Corporation.The global power have used and still using multinational corporation as a means of distributing wealth, because they have link with their home government to repatriate dividends and export both finished and raw material to anywhere deemed appropriate by the global powers
-Another instrument for wealth distribution is through cartel and use of threat and loan demal to deal with less developed nations where natural resources are endowed. For example, the super power has used threat assassination and coup to deal with less developed nations to bow to their whims and caprices. David Allende of Chile was destooled because he refused USA and its allies control their natural resources
Increase globalization.
- Another instrument for wealth distribution is through globalization where the world is a global village, where transaction is concluded through internet, e-market and so on. Globalization has provided ways for making wealth distribution easy. The super have used their technical known how to improve the distribution of wealth of nations.

The Problems of Global Power in Wealth Distribution

-One of these problems is the problem of financial insecurity experienced by the majority of developing countries. The problems are three factors, namely hasty and disorganized financial liberation, excessive debt and lack of capital flow into underdeveloped nations liberalization of financial markets without the slightest examining countries in transaction. IMF orders the liberalization of financial markets without evidence that stimulate growth and economic development in countries adopting it. This was the case of Nigeria and Russia
-Another problem resulting from great power wealth distribution is increased debtedness of less developed countries that have natural resources, without adequate technical knowhow and expertise to distribute the wealth. Many nations
-Furthermore, political instability have came into the purview of nation for example have experienced and still experiencing violence, bomb blast due to resource distribution and power acquisition. Political hegemony remained the last resort to wealth distribution. The global power through IMF introduced privatization and commercial of public enterprise, the only access to wealth is through political office.

The meaning of risk

According to Harrington (1999), the term risk has a variety of meaning in business and everyday life. At its most general level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Life is obviously very risky, even the short-term future is often highly uncertain. In probability and statistics, financial management, and investment management, risk is often used in a more specific sense to indicate possible variability in outcomes around some expected valueWilliams, Jr. and Heins (1985), in their own view, posit that risk is the variation in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero; therefore, the greater the variation in outcomes the greater the risk element that will occur.

The nature of risk

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

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

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

Differentiate between condition of certainty and condition of uncertainty

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

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

The Types Of Risk Confronting Business

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

The External Risks Of A Business

These risks are associated with the dictates of the external environment, which are beyond the control of the firm. These types of risk are;

1. Financial Risk

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

2. Systematic Risk

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

3. Speculative risk

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

4. Exchange Rate Risk

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

5. Market Risk

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

6. Political Risk

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

The Internal Risks Of A Business

These risks are associated with the internal intricacies of a firmïs operations.These types of risk are;

1. Strategic Risk

This type of risk, according to The Institute of Risk Management, is said to be future oriented and can arise when:
a new competitor enters a firmïs industry;

- two businesses in the industry merge to create a power house;

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- the firm faces decisions about creating new products;
- the firm faces decisions about entering new markets; and
- the firm is considering the location of a disaster recovery site in relation to the
- main centre of operation

2. Unsystematic Risk

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

3. Liquidity Risk

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

4. Operational Risk

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

5. Compliance Risk

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

6. Business Risk

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

Who is a business STAKEHOLDER

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

In the opinion of Kaye (2004), the stakeholders of a business entity comprise the people or organizations, which could be affected by a risk incident occurring in the organization itself.

The INSIDE STAKEHOLDERS AND RISK

There are some stakeholders who are insiders to the business organization.they are;

1. The Shareholders

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

2. Management as Stakeholder

The major pre-occupation of any business entity is to maximize profit from its operations. Nevertheless, management recognizes the fact that such objective of maximization of profit can be jeopardized at the instance of occurrence of risk. Therefore, management is interested in various risks which are inherent in business operations. The understanding of operational risks will prepare the management team in instituting appropriate measures to checkmate and mitigate known business risks such as those discussed in the initial unit of this study material.

3. The Employees

The employees of a business entity have vested interest in the operations of the organization. Such interest is informed by their stake in the revenue of the organization because their salaries and allowances come from it. The other areas of employeesï interest in the organization include their morale and pride, which are often reflected in the degree of their self motivation level of performance and productivity and above all, the quality of their work.

4. Labour Union

The labour union which represents the collective interest of the workers in a business entity also have vested interest in the operations of the organization. The unionïs interest is informed by their stake in the healthy operations of the organization. This is because the workersï fate is dependent on the survival of the business. The labour union in any corporate entity is normally pre-occupied first and foremost with the profitable operations of the entity. This

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operational scenario is needed to guarantee the workersï jobs. The occurrence of loss arising out of operational risk can jeopardize the companyïs operations, which will eventually impact negatively on the payment of employeesï salaries and allowances.

5. The Suppliers

The suppliers of productive materials, in the case of a manufacturing outfit and commercial products in the case of merchandizing business, have stake in the business. This is because the operational fortunes of the business have impact on their patronage and payments for their supplies. The suppliers will be interest in the nature of risks to which the businesses of their customers are exposed so as to influence their level of business dealings with them. This is because of the fact that any occurrence can impact negatively on the stake of the suppliers.

6. The Distributors

The distributors of products of corporate organizations will be interested in the steady supplies of the products. Since there is no business that is insulated from operational risks, the distributors will be concerned about the nature of risks inherent in the operations of their suppliers. Hence, the distributors will be interested not only in the level of risk exposures of their customers but also the measures put in place to preclude and mitigate business risks. This is necessary in order to avoid disruptions in their business operations which may arise from occurrence of risk to the operations of their suppliers.

7. Industrial Customers

The industrial users of the products of a companyïs are major stakeholders in the business because they depend on the suppliers for their productive operations. The users as customers can be affected by any risk which may disrupt the suppliersï ‘perations. Such occurrence of risks and consequently, the disruption of operations may affect their relationships since it will become difficult to fulfill the contractual obligations for suppliers and hence, such failure will make the confidence in the suppliers to be lost.

The OUTSIDE STAKEHOLDERS AND RISK

1. The Government

The government is interested in the overall economy and by implication, all the productive units which include all business organizations are being monitored by the state apparatus. Therefore, government has vested interest in the operations of corporate bodies doing business within her territory. First and foremost, the government is interested in the growth and development of the economy which can only be ignited and sustained by business entities. Above all, the industrialization efforts of the government is normally complimented and enhanced by business operations.

2. The Regulators

There are business and environment regulators whose actions are geared towards regulating the operations of the businesses to ensure that they conform with laid down best practices in their dealings and protection of the environment. There are various regulators such as NAFDAC, SON, CPC, EFCC, Customs, and Immigration which have operational activities, in many different ways, which require them in taking a continuing interest in corporate entitiesï operations and dealings within the countryïs economy.

3. The Media

The media comprise print and electronic organizations such as local and international newspapers, television and radio outfits, popular and professional magazines, and the Internet. These media organizations are always on the lookout to bring to the knowledge of the government and the general public any risk exposures of business entities and above all, reportage of risk occurrences, which may not be in the best interest of companies.

4. The Investors.

The investors are those high networth individuals and companies who have surplus funds to invest with the intent of reaping financial benefits in the future. Most investors are risk averse because they are not interested in losing their funds. In relation to investment in stock, investors would commit their funds in the shares of companies whose records of managing operational risks are favourable in terms of the measures which they put in place for precluding and mitigating risks.

5. The Banking Industry

Banking business is dependent on the healthy operations of other business particularly the corporate entities. Therefore, banks and other financial institutions will maintain an interest in the fortunes of those organizations to which they have provided funds. Once banks perceive a particular industry is prone to greater risk such as petroleum industry (both upstream and downstream operations) the cost to be borne by such companies would be very high.

6. The Capital Market

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The Securities and Exchange Commission and the Stock Exchange are in charge of regulating the operations of the capital market in the country. The quoted companies have their shares listed on the Exchange and therefore, they owe the Commission and the Stock Exchange some obligations in reporting any occurrence of risks to their operations in the course of a financial year. Such reports can affect the prices of the companiesï stocks and therefore, both capital market authorities would be interested in the measures being put in place to preclude and mitigate their operational risks. This is necessary in order to avoid the loss of investorsï funds as a result of consequential disruptions to the operations of such companies, which may arise from occurrence of risks.

The Objective Element of Risk

Risk is embedded in variation in the possible outcomes in a given scenario regarding a risk. Since the timing of the occurrence of risk is uncertain, uncertainty is often used synonymously with risk. Hence, whenever uncertainty is used in place of risk, it usually implies the objective uncertainty. Such is measurable or quantified because it is used when a measure of variation in occurrences of risk is intended. A popular measure of variation is the standard deviation. This measure is helpful for use in predicting the expected variation from apparently identical situations which may precipitate different decisions. For example, a manager who is conservative and will always tends to play safe in business decision that many seem quite risk-free to other decision makers. Basically, there are statistical formulations for determining such errors and measuring them. In fact, the decision maker can make use of his past experience to determine the objective probability and relative frequency of the occurrence of various outcomes. Therefore, measurements could be determined with the support of past experience and available records.

Subjective Element of Risk

A particular type of event may be of a nature in which it ought to be possible tocalculate both the probability and then the potential variation in its outcomes. Nevertheless, there exist some defects in the quality of data available to risk managers which prevent the calculation of reliable objective estimate of future loss probabilities.
The common problems or defects inherent in the calculation of future loss possibilities are as follows:

i) Inadequate large samples of data

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

ii) Dynamic nature of risk factors

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

the INDIVIDUAL ATTITUDES TO RISK

Risk Averters

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

Risk Seekers

In the opinion of Pritchett, S., et al (1996), an investor or manager who accepts risk at less than the expected average loss, perhaps even paying to add risk such as through gambling is a risk seeker. One person may be very cautious and averse to taking chances in investment, whereas another may be highly optimistic regarding future uncertain outcomes regarding risky investment. The former in terms of attitude to risk is risk averse, who is likely to arrive at higher loss probability estimates while the latter who is less likely to arrive at higher loss probability estimates is the risk optimist.

Risk Neutrals

Pritchett, S. et al (1996) posit that a person willing only to pay the average loss as a premium would be considered risk neutral. It means that such individuals are not ready to assume risk and at the same time not prepared to stake more than necessary in preventing risk or transferring the loss to an insurance company. The pertinent issue at this juncture is: what makes one person to be more risk averse than another? This issue borders on the realm of psychology or sociology, or anthropology. Nevertheless, it can be assumed that factors such as family and societal influences, genetics, religious and philosophical beliefs all play an important role.

The RELATIONSHIP BETWEENRISK AVERSION AND UNCERTAINTY

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there is some ambiguity in the relationship between a personïs risk aversion and his uncertainty. A problem arises as a result of the imprecise way the twin terms aversion and uncertainty are commonly used. Nevertheless, in some respects, uncertainty could be affected by aversion. For example, a decision maker might be so distrustful of risk in general that he/she would tend to disregard his/her own judgment regarding a particular risk might be driven higher by her/his aversion to risk.

What is COSTS ASSOCIATED WITH RISK

Costs associated with risk refer to the obvious implications or consequences of occurrence of risk in organizational operations.

The Costs in Nature of Risk

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

1. Risk Handling Costs

These handling costs in risk are in the areas such as follows:

i) Costs involved in identifying, evaluating and treating risks

ii) Insurance premiums

iii) Charges for loss prevention devices

iv) Fees for consultancy service

v) Opportunity costs in terms of management and staff time spent on dealing with risks, which cannot be devoted to other activities.

vi) The costs of avoiding a risk may be a loss of revenue derived from the particular activity involved.

2. Costs of Losses Arising from Risk

These costs arise as a result of the occurrence of risk in the organizational operation, and
they are as follows:

i) Direct costs to a firm

- These elements of cost in risk from industrial accidents can arise as a result of the following:
- Compensation payable to injured employees
- Damage to machinery, equipment and work in progress
- Loss of production
- Accident investigation expenses.

ii) Indirect costs

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

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

3. Costs Attributable to the Existence of Risk

These elements of cost in risk do arise due to the following reasons: Welfare loss:- exposure to risk involves a welfare loss suffered by those exposed to risk, e.g., to a risk averter.

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

The Private and Social Costs Inherent in Risk

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

Both private and social costs may be inherent in many pure risks. A major fire incident may render a factory inoperative and as a result necessitate loss of employment by the workers besides the loss borne by some other stakeholders. The company involved could be compelled to bear part of these social costs such as redundancy payments to workers and payment of compensation to some third parties for personal injury or damage to their

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property

The LOSSES ARISING FROM RISK

The undesirable outcome of risk involves an economic loss. This is because there are some benefits which are associated with some forms of risk.
The undesirable end result of risk signifies some loss of benefits which would have accrued from the use of a property. Such undesirable element of risk involves the decrease or disappearance of value
The undesirable end of risk is usually in an unexpected or atleast relatively unpredictable manner. Since it is associated with risk, the outcome which is not desirable would be unpredicted in pecuniary magnitude as well as in the extent of its impact.

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

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

Differentiate between private cost and social cost in relation to risk.

Private costs are costs incurred from the occurrence of risk by the individual or firm which is affected by the outcomes of the risk. In a case of pollution of the environment, the company would be compelled to expend some funds on cleanup of the land and the river of the deadly sludge in addition to payments to the affected members of the public damaged property and farmlands.
Social cost in risk arises when the community in which a company operates bears some costs from its operational activities. An example is a leakage of contaminated sludge from a factory polluting the surrounding land and river depriving the community of their source of livelihood and water supply.

Mention losses that are associated with occurrence of risk

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

the causes of risk in business operations.

the causes are inherent in the human nature, environmental conditions, and mechanical operations.
1. Inadequate Cash Flow
This arises when the management in the case of large entities or business owner in the case of small businesses does not monitor closely the expenses and accounting records of the operations. The result is that the flow of cash into the business will be jeopardi
2. Labour Unrest
Labour problem can precipitate risk in the operations of a business entity. In the event of labour, unrest which can

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emanate from disagreement between the management and labour, operations or production will suffer and therefore, the business will incur abnormal loss. The labour unrest can take the form of strike, stoppage, work to rule, and picketing, among others.

3. Weak Internal Controls

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

4. Weak Corporate Governance

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

5. Investment in Risky Ventures

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

6. Operations in Volatile Environment

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

7. Poor Planning

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

The PERILS IN BUSINESS OPERATIONS

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

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

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

- storms,
- floods,
- typhoon,

What are the forms of peril in relation to risk?

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

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the categories of hazard in BUSINESS OPERATIONS

In insurance parlance or business hazards are categorized into physicals hazards and moral hazards.

i) PhysicalHazards: Physical hazards refer to the tangible conditions or characteristics of the risk that influence the frequency and or severity of loss inherent in a risk. These tangible or physical conditions of risk include considerations such as:

- location,
- structure,
- construction,
- occupancy,
- security protection, and
- exposure, etc.

Particularly, physical hazards include conditions such as:

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

ii) MoralHazards:

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

- dishonesty,
- insanity,
- carelessness,
- indifference, etc.

What are the forms of hazards in relation to risk?

Forms of hazards in relation to risk include the following:

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

the UNCERTAINTIES IN BUSINESS OPERATIONS

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

1. Political

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

2. Government Policy

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

3. Macroeconomic

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

4. Socio-cultural

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

5. Geographical

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

6. Input Market

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

7. Product Market

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

8. Competition

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

9. Operations

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

10. Liability

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

the Risks to business

Credit crunch

As banks and other financial institutions reduce the level of credit they are able to provide, there are several negative consequences for businesses:

to build up stocks. It is difficult for businesses to borrow money from financial institutions and therefore expand. E Reduced credit adds to the pressures up and down the distribution chain. Suppliers are paid with increasing delays and customers are expected to pay more promptly. As these demands cannot be passed on, they in turn reduce the liquidity of suppliers of customers and can lead to a cascading liquidity crisis and bankruptcies.

Consumption

As credit dries up and the government tightens the central budget, consumer confidence falls and they begin to re-assess their spending priorities. Demand for consumer goods and services has stagnated over the last two to three years in Europe and North America, with robust growth in China and other rapidly growing emerging markets cushioning the blow for global companies. The crisis has had a highly differentiated impact on different retail sectors, with some able to withstand the pressures of the downturn better than others.

What is the Global pandemic risk

As national borders open up to wider and more profitable exchange, we also expose ourselves to a wider range of pathogens and parasites. The fact that we have reduced natural diversity in order to expand our production and transport capacity multiplies the danger because diversityscale and devastating pandemics have occurred before the rise of the emergence of globalised networks of trade, people and services. The full impact of a pandemic today is therefore unknown. A pandemic is a particular category of health threat: a highly infectious disease whose initial rate of transmission outpaces our capacity to detect, contain or inoculate against it, thereby endangering the human population as a whole. This threat typically begins as a communicable virus afflicting a specific animal population: pigs, chickens and cows are common culprits. For such a virus to take on pandemic proportions, three conditions must be met. Firstly, the host animal population must be sufficiently large and concentrated to incubate and mutate progressively virulent strains

Risks to business

Human resources

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

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Suppliers and services

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

Customers and markets

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

what is the Infrastructure risk

Since our economies and our safety both depend upon their proper functioning, the health of our critical infrastructure (electricity, gas, oil, telecommunications, water, agriculture, heating, health, transportation, financial services security) merits careful, constant monitoring. The double-trend of swelling populations who demand services, plus the intensifying per capita use of these services as economies develop, puts all infrastructure under enormous strain. The global integration of societies has provided the engine for thisrapid economic growth.

Risks to business

Demand pressures

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

Globalisation has allowed businesses to expand, supplying goods and services on a global scale and to benefit from the ability to outsource key business functions, such as IT and customer services to international locations

Vulnerability of IT infrastructure

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

What is Supply chain risk

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

Risks to business

Less control over more complex supply chains In a recent MIT survey of global supply chains, 90% of those executives surveyed believed that the size and frequency of supply chain shocks was increasing in their company. Globalisation has allowed businesses to expand across many countries and provided more choice of suppliers.

Vulnerability of just-in-time business models The risk to complex supply chains is heightened by the small margin of error that businesses build into them. Small changes to delivery schedules can have dramatic knock-on effects on production and sales. The disruption to supplies may arise at the point of production or in transport and delivery.

Cascade failure

There is strong evidence that as supply chains become more extensive and complex, the risk of a given disruption becoming serious or causing cascade failure has increased. A cascade failure is a system-wide shutdown caused by the failure of one or more critical and non-redundant elements.

What is food security

Globalisation has led to a rapid increase in incomes, which, along with population growth, has fuelled an increase in food demand, as well as a transformation in the types of foods under demand, most notably processed foods. Continuing population and consumption growth will mean that the global annual demand for food will increase for at least another 40 years.91 The global shift towards standardisation is nowhere more stark than in the natural environment and the ecosystems that supply our food. Due to the growth in food demand, our standard practice is to replace natural diversity with artificial monoculture environments that can yield large harvests and herds with minimal

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labour inputs. Planting monocultures in thefields ensures thatthe whole regionalagricultural support infrastructure, including research, development, suppliers, storage, transport and markets is also highly specialised, and therefore sensitive to fluctuations in crop yields and herd health.

Risks to business

Crop control

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

Quotas

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

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

What is the Geo-political risk

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

Risks to business

Piracy

links has provided a boon to piracy, which has staged a remarkable comeback; now armed with new technologies such as GPS systems, satellite phones, and rocket-propelled grenade launchers.

Terrorism

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

Political instability

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

the Definition of Policy

policy is defined as a decision rule not a decision. For example, of a policy- Hire only professionally qualified accountants for senior accounting positions. When such a person is hired it is a decision. A policy is considered the general guideline for decision making. Kalejaye, A. (1998) defined policy as the objectives, the mode of thought and the body of principle underlying the activities of an organization. According to Fagbemi (2006) a policy refers to what an organization or a person intends to do or does. Business policy therefore is what business organization intends to do. It aims at assisting the organization to deliver services to meet the needs and expectations of the goals of the organization. Policies are plans in that they are general statements or understandings that guide or channel thinking in decision making. In actual business situation, not all policies arecompany (organization), for example may strictly

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follow-perhaps for convenience rather than as policy-the practice of promoting from within; the practice may be interpreted as policy and carefully

the Definition of Business

Wikipedia (2012) states that a business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning. The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope _ the singular usage to mean a particular organization; the generalized usage to refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services. However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings

The forms of business ownership

Sole proprietorship: A sole proprietorship is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited liability for the debts incurred by the business.

Partnership: A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are general partnerships, limited partnerships, and limited liability partnerships.

Corporation: A corporation is a limited liability business that has a separate legal personality from its members. Corporations can be either government-owned or privately owned, and corporations can organize either for-profit or not-for-profit. A privately-owned, for-profit corporation is owned by shareholders who elect a board of directors to direct the corporation and hire its managerial staff. A privately-owned, for-profit corporation can be either privately held or publicly held.

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

The Definition of Business Policy

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions. Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved.

the significant issues affecting organizational success and the decisions affecting organization in long-run.

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

The definitions of Business Policy given by Rama Rao (2010)

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(1) A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.
(2) A business policy is one, which focuses attention on the strategic allocation of scarce resources. Conceptually speaking strategy is the direction of such resource allocation while planning is the limit of allocation.
(3) A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions.
(4) A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation
(5) The purpose of a business policy is to enable the management to relate properly to thinking.

The Difference between Policy and Strategy

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature.
While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.
4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action. A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

the Objectives of Business Policy

- Efficiency and effectives in performance of duties
- Equal provision of services and treatment of customers
- Better management and provision of better quality services
- The utilization and application of resources
- The formulation mission statement
- The establishment of vision of the organization

Why Create Business Policies?

Drive strategic planning, and help set expectations and performance objectives.
Lead to more efficient internal operations.
Engage and align the values of stakeholders; and build mutual understanding of expectations and challenges.
Ensure accountability and create transparency.
Promote ethical and responsible decision-making.
Assess and mitigate risk.
Streamline new staff orientation; having established written policies that staff can refer to creates consistency, clarity, and provides an understanding of the goals and culture of the company.
Result in time savings: proactively thinking about how specific situations and issues will be handled eliminates having to discuss and debate how to handle issues every time they come to the forefront.
Meet legal requirements; some laws require employers to adopt certain policies to guide the actions of their staff and management. Example: Discrimination/Harassment Policy.

The Genesis of Business Policy

Tracing the history of business policy, Kazmi (2006) stated that its can be traced back to 1911, when the Harvard Business School introduced an integrative course in management aimed providing general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908 (Christensen, et. al., 1982 cited in Kazmi, 2006). However, the real impetus for introducing business policy in the curriculum of business schools (as management institutes or departments are known in the United States) came with the publication of two reports in 1959.

The evolution of business policy based on Managerial Practices

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Kazmi, (2006) have viewed the development in business policy as arising from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers, till recently, tried to anticipate the future through the preparation of budgets and by using control systems like capital budgeting and management by objectives. However, as these techniques were unable to emphasise the role of the future adequately, long-range planning came into use. But, soon, long-range planning was replaced by strategic planning, and later, by strategic planning

The Historical Perspective of the Evolution of Business Policy

Hofer et al., (1984) have viewed the evolution of business policy in terms of four paradigm shifts. For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject, business policy. It is interesting to note that the development of business policy, as a field of study, has closely followed the demands of real-life business. He further the first phase which can be traced to the mid-1930s, rested on the paradigm of ad-hoc policy-making. The need for policy-making arose due to the nature of the American business firms of that period. The first, which had originally commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. Informal control and coordination became partially irrelevant as expansion took place and the need to integrate functional areas arose. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management. Due to the increasing environmental changes in the 1930s and 40s in the United States, planned policy formulation replaced ad-hoc policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

The importance of Business Policy

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

Learning the Course

Business policy seeks to integrate the knowledge and experience gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional areas. Business policy deals with the constraints and complexities of real-life businesses. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge, resulting from a simplification of the complex overall tasks and responsibilities of the management.

Understanding the Business Environment

Regardless of the level of management a person belongs to, business policy helps to create an understanding of how policies are formulated. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation. By gaining an understanding of the business environment, managers become more receptive to the ideas and suggestions of the senior management. Such an attitude on the part of the management makes the task of policy implementation simpler.

Understanding the Organization

Business policy presents a basic framework for understanding strategic decision-making while a person is at the middle level of management. Such a framework, combined with the experience gained while working in a specialized functional area, enables a person to make preparations for handling general management responsibilities. This benefits the organization in a variety of ways. Business policy, like most other areas of management, brings the benefit of years of distilled experience in strategic decision-making to the organization and also to its managers.

Personal Development

A study of business policy offers considerable scope for personal development. It is a fact of organizational life that the different sub-units within an organization have a varying value and importance at different times. It often happens that a company which has followed a production orientation as a matter of policy gradually shifts emphasis to marketing may be due to increasing competition. In the changed situation, executives within the production departments have fewer opportunities for career advancement as compared to their colleagues in marketing

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The Purpose of Business Policy

the purpose of business policy is three-fold which is;

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

The Objectives of Business Policy

Knowledge

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

Skills

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

Attitude

1. The attainment of the knowledge and skill objectives should lead to the inculcation of anappropriate attitude among the learners. The most important attitude developed through this course is that of a generalist
2. By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgment and intuition
3. For a general manager information and suggestions are important to possess a liberal attitude and be receptive to new ideas

An Alternative Viewpoint on the Objectives of Business Policy

1. Integration of functionally specific knowledge. Business policy acts as an integrative, capstone course demonstrating the interdependence between separate functional areas, such as marketing, finance, and so on
3. Working in, managing, and leading a team. Working with and managing a diverse and flexible team is a critical

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

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

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

The Characteristics of Policy

(1) Destiny

A common characteristic of policy is that it denotes future action and intent. It usually describes a goal or destiny which is there to be achieved

(2) Top Management Approval and Commitment

In practice, making contributions and recommendations on policy issues may be the function at the lower levels of management in the organisation, but it is the hallmark of policy that it is approved and endorsed by the top management

(3) Intellectual Input

Policy requires a high level of intellectual and intelligent inputs because policies are concerned about the future activities deemed to be just and right for the organisation.

(4) Consistency and Long-term in Nature

Usually, policy makers have thought through all aspects of a particular policy culminating into consistent and enduring policy thereby making frequent amendments difficult. Constant changes in the course of action and direction of an organisation will surely bring about confusion, resenting and even generally derail all things that sound policies are trying to achieve.

(5) Acceptability

The degree of acceptance of organisation policy to everyone is marked by the persistence and understanding of employees who want to know why the policy is made or changed. Genuine reasons must be forthcoming and management needs to provide supervisors with sufficient information to satisfy queries regarding a policy.

(6) Communicated to Staff

As soon as policies are formulated and ratified, they should be communicated to members of the organisation. Everybody must be aware about the mission and objectives of the organisation; hence, there should be no exception in communicating policies to the members of the organisation

(7) Genuine Intention and Application

It is not uncommon for management to declare policy for prestige purposes, such as publicity and then fail to put the policy into practice.

(8) Balanced Interpretation

While correctly interpreting policies, managers do rigidly conform to principles and procedures without due regard for the human elements of the organisation and emerging pressing issues. Something more than correctness is required in human society and ever changing complex environment; all these factors, when weighed carefully, might well provide a more balanced interpretation which would relegate to the background the narrow correct ones.

(9) Alignment with Objective

All policies must follow parallel courses of action which are directly related to objectives. If they cross or oppose objectives, collective effect is lost and disorder would prevail. Misunderstanding and confusion are often the cause of problems and poor results rather than faults in the stated policy.

The Sources of Policy

(1) Originated Source _ The most acclaimed source of policies is the one from topoperations. Originated policies flow basically from the objectives of the enterprise, as they are defined by top executive authority. These types of

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policies may be broad in scope, allowing key subordinates to give them clearer definition or they might be promulgated so completely and comprehensively as to leave little room for definition or interpretation.
(2) Appealed Source _ In practice, in most cases, policies stem from appeal through the hierarchical level of management authority. If occasion for decision arises for executives who do not know whether they have sufficient authority or how such matters should be handled, they appeal to their supervisors for the necessary support and action. As appeals are taken upward and decisions are made on them, a kind of rules and procedures are established.
(3) Implied Source _ Useful policies are developed from the actions which employees see about them and believe to constitute them. Employees will readily understand what real policy is if they work for a company that operate policies that produce high quality goals, or sound labour policy, for instance, though the real policy is implied
(4) Externally-imposed Source _ To a large extent, policies are externally-imposed by such agencies as the government, trade unions, professional associations and others like trade association. This might come in form of direct regulation or one of the many conditions of accepting government aid or contract; it could also be to maintain industrial peace

What Makes a Good Policy

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

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

The Formulation of Policy

Policies from Top to Bottom

Some policies cut across all functional areas of the organisation. Many are so interrelated with all area of operations that their significance can best be understood by the top level management. Policies that originate from the top arise out of broad, basic needs perceived and defined by the top managers. In large corporations today, for instance, the Chief Accountant is an important contributor to advance planning and policy formulation. Complex taxes, new accounting procedures, mergers, computerization, insurance, pensions, investment options and appraisal, profit sharing, and depreciation of assets and other many cost implication corporate issues cause the Chief Accountant to become involved in areas that are broad than strictly finance.

Policies within Functional Areas of Departments

Those in charge of functional areas, and/or departments are generally involved in establishing policies for those areas. Marketing executives formulate marketing policies, purchasing executive formulate purchasing policies; personnel managers formulate personnel policies, etc.
These are operational policies proposed and formulated atfunctional areas and departmental levels. Managers must be consistent and operate within corporate policy guidelines while formulating policies at these levels. Policy established within functional areas may influence the formulation of policy in other functional areas as well as the strategies developed to pursue those policies

Policies from Bottom to the Top

There are lots of advantages and wisdom in inviting supervisors and other operating personnel to participate in developing and implementing policies. Whenever possible, nonmanagement employees should have a voice in

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policy matters that will directly affect them or their work.

List the steps required for formulating a new policy or review an existing policy.
(ii) Identify the need for a policy in a given area.
(iii) Source for and collect all possible and relevant information for the policy formulation.
(iv) Consideration must be given to all alternatives especially as they relate to the policy.
(v) Analyse all possible available outcomes.
(vi) Select the best policy statement so far made taking into consideration its possible outcome.
(vii) Review the policy statement with the employees and others who will be affected by itsapplication.
(viii) Ensure the policy is in line with the other existing policies of the organisation.
(ix) Draw out the final policy statement including the effective dates of such a policy.

The Types of Policies

There are many types of policies. Examples include:

- hiring university-trained engineers;
- encouraging employees suggestions for improved cooperation;
- promoting from within, conforming strictly to a high standards of business ethics;
- setting competitive prices; and
- insisting on fixed, rather than cost-plus, pricing

Major Policies

They provide guide line pertaining to such things as the line of business and ethical conduct of organization

Secondary or Corporate Policies

These policies are broad and general policies formulated at the upper levels of management of the organization. These policies apply to the entire organization and deal with business facets such as the selection of major products and services and the selection of marketing areas

Functional Policies

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

Minor Policies

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

Procedure

This is a series of related steps or related steps or tasks expressed in chronological order to achieve a specified purpose. Procedure defines in step-by-step fashions the method by which policies are achieved.

Rules

This is a statement of what may, must or must not be done in a particular situation or when playing a game. It explains in a lucid manner what an employee should do or is advised to do in a particular situation.

What is business policy

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

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

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

The categories of business policies

Catalog business policies

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

Payment business policies

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

Returns business policies

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

Shipping business policies

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

Referral interface business policies

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

The several types of Business policies being followed in the Business Environment. Business policies may be of the following types:

1. External Policies: Policies framed to give effect to the decisions of the Government, judiciary, trade associations and such other external forces are what are called external policies. For example, under the Income-Tax Act, every employer is bound to deduct tax from the salary payable to the employees every month.

2. Internal Policies: Policies formulated to give effect to certain decisions taken by the owners of a business establishment are what are called internal policies. For example, it may be the policy of a certain private sector organization to appoint certain categories of workers purely on contract basis.

3. Appealed Policies: Such policies are formulated to give effect to the suggestions of the staff of an organization. For example, the employees may make an appeal to the top management toretirement. If such a proposal is acceptable to the management, the same may be announced as a policy retirement. If such a proposal is acceptable to the management, the same may be announced as a policy

4. Explicit Policies: Those policies of an organization that are stated outwardly are called explicit policies. Such policies form part of the organization manual.

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

The Reasons for Formulating Policies

The major reasons for having policies are as follows:

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

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

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

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

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

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

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

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

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the Uses of Policies for Management Effectiveness

1. Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organisational units thus facilitating the delegation process
2. Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things.
3. Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.
4. Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.
5. Definiteness and flexibility are both desirable to goals attainment, but calculating the tradeoff lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.
6. To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.
7. Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.
8. Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.
9. Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap ensuring that staff actions are consistent with the broad policies and actions of others in the organization
10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general.

The Integration and Relationship of Policies to Objectives

Policies are general statements specifying how objectives are to be accomplished. Organisational objectives and policies are not mutually exclusive components of the management process. Rather, the relationship between policy and objective is that they are highly interdependent and inseparable. The two are interlocked and interrelated; and while objective defines standard of what the organisation should accomplish, policy directs action towards the attainment of the standard set by the objective. It is not possible to attain objectives without knowing the policy guidelines that must be followed. Similarly, strategies cannot be determined without first knowing the objectives to be pursued and the policies to be followed. Rogers (1973) provided the basis for the above analogy which demonstrates the interdependence amongobjectives, policies and strategies

THE Management Policy Areas

Management policy areas are very extensive; some of the specified principal areas are as discussed below:
Organisation: The organisation has to develop policies for itself. Such policies have to do with defining the appropriate departments, jobs, ranks within the organisation and interrelationships in line with the corporate objectives of the organisation.
Administration: Administrative policies of the organisation are formulated with a view to ensuring that there is effective leadership, direction and supervision at all levels and divisions of the organisation.
Unions: The policy statements are set out to maintain appropriate relationships with management. Between the organisation and unions/labour movement, they also space out the procedure for negotiating conditions of service and settling of industrial disputes.
Control: Policies on control are essential in organisation because they facilitate and pave way for the attainment of organisational goals by maintaining appropriate standards of tasks, personal and group performance.
Training and Development: This category of policies are formulated to guide the top management in providing programmes designed to meet organisation needs, individual needs an career requirements of managers and employees.
Incentive: This involves developing appropriate incentives to motivate employees and managers alike in order to

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ensure efficient performance.
Public Relations: The policy here guides in providing adequate and appropriate attention to public attitudes and reactions to policies and practices of the organisation.
Political Action: This policy expresses the position or attitude of the organisation on political issues and events. Policy statement in this regard may restrain employees from talking to the press on political issues or even discuss political matters within the organization

The Role of Workers in Policy Formulation

(i) Workers participation is viewed as a means of advancing the interest of workers;
(ii) Workers participation is a way of distributing power within the enterprise more equally and in handling conflicts of interest by democratic procedure otherwise known as industrial democracy.
(iii) By involving workers in policy formulation, this will bring about effective utilization of the human resources of the enterprise.
(iv) Workers participation in management policy is in effect seen as the antidote towards uncooperative attitudes and increase in industrial conflicts.

The Definition of Public Policy

A policy can refer to a proposal, of a programmed, major decision or the refusal to make certain decision. In other words, policy is simply actions taken or to be taken by government or private organisation.
A policy option made by an individual is known as "private policy" because it affects the person alone and no any other person
Public Policy is defined as the strategic use of resources to alleviate n7.1"iorlH problems or government concerns

The Features of Public Policy

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

The Meaning of Policy Analysis

Policy analysis is defined as a set of techniques that seeks to answer the question of what the probable effect of a policy will be before they actually occur'This refers to a "before the fact" analysis of Public Policies. However, the term is also used by many to refer to both before bind after the fact analyses of Public Policies.

The Uses of Public Policy Analysis

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

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the Types of Public Policies

Distributive Policies

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

They can be the actual favours, benefits or patronage policies that are dispensed to a small number of people. This dispersal is continual and those not favoured at one point, may be favoured at another time. However, the nature of distributive polices is that recipients and losers do not come into direct confrontation. Although potential beneficiaries seek required favours, they do not often oppose or interfere with favours to others. Examples of distributive policies are those that relate to public land, tariff, orts, etc

Regulatory Policies

They are policies, which refer to law or policy outputs that regulate distribution, practices, actions and activities. These are policies, which relate to directions, rules and frameworks on activities in various areas such as business, commerce, agriculture, transportation, etc. Their impact is either increases in costs or restrictions or expansion of activities and alternatives to private individuals organizations Examples are NAFDAC and Standard Organisations.

Redistributive Polices

These are policies, which relate to relations between or among classes or categories of the population. They benefit particular segments or category of the population, such as the unemployed, homeless, the poor, the retired, etc. Their target and impact normally large scale or broad.

Fundamental Policies

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

Major Polices

Major policy is based on legislature enactment made by the highest legislative bodies at varying levels of government. They are either in the form of laws or programmes. Major policies are therefore important and backed by the highest legislative bodies.

Functional Polices

They emanate largely from the executive branch but could also emanate from decision and resolution set by legislatures and the courts. They are actually minor policies that relate to regulations and guidelines

Mega Policy

It is a policy that constitutes a framework for other, which usually are minor or secondary policies. Mega policy is a master policy within which and by, which some other policies within a specific policy issue or area are made.

Meta Policy

It is a policy that relates to policy making. Its attention and goal is on how to make other policies and particularly how to make better policies. Meta policy is concerned with the mode of policy and the system within, which public policy is made. It relates to policies on the process, guides, techniques, methods, requirements and characteristics of policymaking system

Define globalization

Answer

Globalization is the process by which businesses or other organizations develop international influence or start operating on an international scale. **Globalization** is the process in which people, ideas and goods spread throughout the world, spurring more interaction and integration between the world's cultures, governments and economies

Identify instrument for wealth distribution

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

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

-Another instrument for wealth distribution is through globalization where the world is a global village, where

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transaction is concluded through internet, e-market and so on. Globalization has provided ways for making wealth distribution easy. The super have used their technical known how to improve the distribution of wealth of nations.

Elucidate on the problems in wealth distribution

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

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

Explain the concept of stakeholder in business organization

The business stakeholders comprise the interested parties in the operations of any business entity. It is not only the owners or shareholders of a business entity that is interested in the fortunes of such business. There are other parties or stakeholders who have to partake in the business entityïs fortunes. In the opinion of Kaye (2004), the stakeholders of a business entity comprise the people or organizations, which could be affected by a risk incident occurring in the organization itself. This is in consideration of the fact that risk has great potential to òthreaten the operations, assets and other responsibilitiesó of any business entity.

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

List five each inside stakeholders and outside stakeholders in business organization

INSIDE STAKEHOLDERS

1. The Shareholders
2. Management as Stakeholder
3. The Employees
4. Labour Union
5. The Suppliers
6. The Distributors
7. Industrial Customers

OUTSIDE STAKEHOLDERS

1. The Government
2. The Regulators
3. The Media
4. The Investors.
5. The Banking Industry
6. The Capital Market

INSIDE STAKEHOLDERS

The Distributors

The distributors of products of corporate organizations will be interested in the steady supplies of the products. Since there is no business that is insulated from operational risks, the distributors will be concerned about the nature of risks inherent in the operations of their suppliers.2. Management as Industrial Customers

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

The Suppliers

The suppliers of productive materials, in the case of a manufacturing outfit and commercial products in the case of merchandizing business, have stake in the business. This is because the operational fortunes of the business have

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impact on their patronage and payments for their supplies.

OUTSIDE STAKEHOLDERS

1. The Government

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

2. The Regulators

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

3. The Media

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

Discuss five types of external risks confronting business entities

1. Financial Risk

It is the type of risk which arises as a result of external obligations. It is associated with the possibility that the business may not have enough funds to meet its financial obligations. Such obligations include debt repayments, dividend payments, payments of taxes, settlement of financial transactions. The risk also encompasses the possibility that external sources of finance may not be available when needed.

2. Systematic Risk

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

3. Speculative risk

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

4. Exchange Rate Risk

This type of risk arises from the fluctuations in foreign exchange rates. This can affect investment in other countries and transactions on imports and exports. The fluctuations in foreign exchange rate, particularly a constant rise in the value of other currencies compared with the value in currency of the home country cause for home industries. The situation would erode the value of the purchasing power of the firms when related to the payment to be made for foreign supplies for production.

5. Market Risk

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

6. Political Risk

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

Enumerate and explain internal risk of business organisation

1. Strategic Risk

This type of risk, according to The Institute of Risk Management, is said to be future oriented and can arise when: a new competitor enters a firmïs industry;

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

2. Unsystematic Risk

This type of risk is inherent in or specific to the nature of the assets. In some cases, such risks can be eliminated or

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guided against through a process called diversification. Some examples of this type of risk are strikes by workers and changes in management decisions**.**

3. Liquidity Risk

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

4. Operational Risk

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

5. Compliance Risk

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

6. Business Risk

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

Elucidate briefly on any five of the following terms:

Public Policy
Business Policy
Policy Analysis
Mega Police
Meta Polices
Redistributive Polices
Distributive Polices

Answer

Public Policy

Public Policy is defined as the strategic use of resources to alleviate n7.1"iorlH problems or government concerns"

Business Policy

Business policy is a guide and roadmap to create awareness and direction to the management of any organization. It publicizes the rights and obligations of different rung of the ladderhorizontal and vertical- of the different capital be human resource engagement, finance utilization etc.

Policy Analysis

Policy analysis is defined as a set of techniques that seeks to answer the question of what the probable effect of a policy will be before they actually occur. This refers to a "before the fact" analysis of Public Policies.

Mega Police

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

Meta Polices

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

Meta Policy

Meta Policy It is a policy that relates to policy making. Its attention and goal is on how to make other policies and particularly how to make better policies. Meta policy is concerned with the mode of policy and the system within, which public policy is made. It relates to policies on the process, guides, techniques, methods, requirements and characteristics of policymaking system.

Redistributive Polices

These are policies, which relate to relations between or among classes or categories of the population. They benefit\ particular segments or category of the population, such as the unemployed, homeless, the poor, the retired, etc. Their target and impact normally large scale or broad. They are largely discriminatory to the disadvantages and advantages,

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working or retired, etc

Distributive Polices

These are types of policies, which involve incremental dispersal, unit to different segments of the population and to individuals and institutions. They can be the actual favours, benefits or patronage policies that are dispensed to a small number of people. This dispersal is continual and those not favoured at one point, may be favoured at another time

Show your understanding of the concept of 'policy' and its use

A policy is considered the general guideline for decision making. According to Fagbemi (2006) a policy refers to what an organization or a person intends to do or does.

Uses of policies

1. Policies are used in preventing deviation from planned course of action by providing definite guide to follow. They provide the communication channels between organizational units thus facilitating the delegation process.
2. Policies provide a conceptual framework within which other plans can be established to form a balanced and coordinated structure of plans. Since they serve as guide to further action, the existing policies relieve managers of the necessity to ask superiors for permission to do or not to do certain things.
3. Through policies, closer coordination and cooperation can be promoted among the organisation elements. Closer coordination and easier delegation will permit a greater degree of decentralization within the organisation.
4. Employees are more likely to take action and voluntarily assume greater responsibility when they are aware of organisational policies. If the personnel are confident that their actions are consistent with organisational policies, they are more likely to take actions than do nothing.
5. Definiteness and flexibility are both desirable to goals attainment, but calculating the tradeoff lies the problem. In certain cases, decisions are too trivial to require policy and at the other extreme, decisions may be too important to rule; hence, in between these extremes, there is need for policies to save time and increase the speed of decision making.
6. To the subordinates, policies will not only serve as means of exercising authorities, it also lay down the guidelines that define and limit the exercise of the subordinates authorities and responsibilities.
7. Policies under-guide the planning of a future course of actions. They show the way the future plans and activities of an organisation are formulated and implemented.
8. Policies define and clarify the objectives and goals of an organisation. They give a further definition on how the objectives of the organisation can be accomplished.
9. Policies are particularly necessary at lower levels where relationship between actions and objectives are most of the time vaguely articulated. Policies are used to bridge the gap ensuring that staff actions are consistent with the broad policies and actions of others in the organisation. If this were not done by policies, every action will have to be approved, putting an impossible communications burden on coordinating supervisors.
10. Policies are used to mould and project the image of the organisation before the interest groups such as shareholders, suppliers, customers, employees and the public in general.

Differentiate between Business Policy and Policy Analysis

Business policy is a guide and roadmap to create awareness and direction to the management of any organization. It publicizes the rights and obligations of different rung of the ladderhorizontal and vertical- of the different capital be human resource engagement, finance utilization etc. It ensures that organizations deliver better end product within a framework. It encourages, promotes and improves performance attainment in an organization.

Policy analysis is defined as a set of techniques that seeks to answer the question of what the probable effect of a policy will be before they actually occur. This refers to a "before the fact" analysis of Public Policies. However, the term is also used by many to refer to both before bind after the fact analyses of Public Policies

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