

# Business Management

MNB1501

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# 1. Business world & business management

## 1.1. Key concepts

*Business world, community, society, institutions, classification, needs, economic systems, development, free market, market system, market economy*

## 1.2. Role of business in society

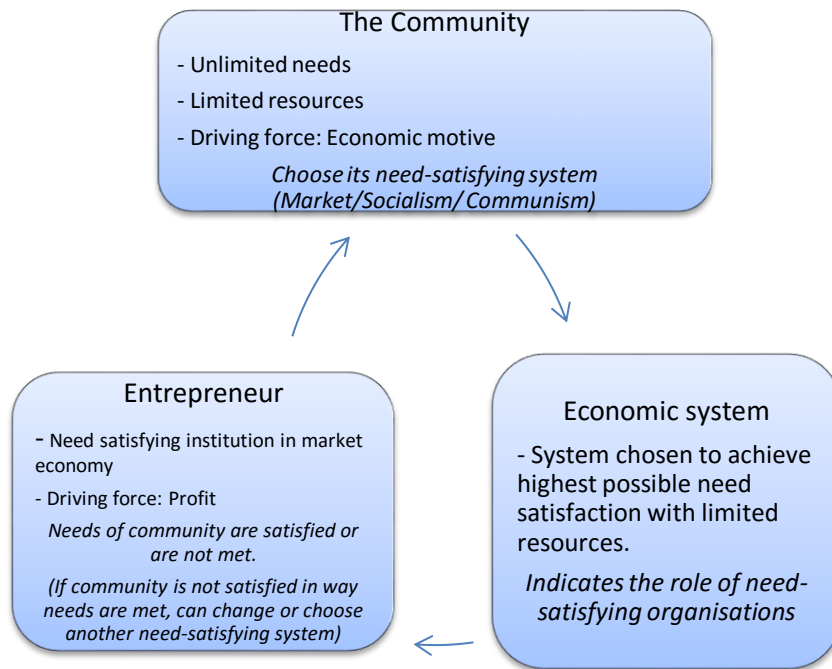
*LO1: Demonstrate an understanding of the role of business in society.*

- Elements of business
  - Human activities – managed & operated by people
  - Production – transform resources into products & services
  - Exchange – products & services for money or other goods/services
  - Profit – reward for meeting people's needs
- Countries have different economies
  - Market economy – business can decide what to produce, how to produce & selling price. Business' primary purpose:
    - Make profit while satisfying needs of the people.
- Industry – group of businesses performing similar activities, e.g. mining, financial services, construction etc.
- Business creates wealth & is catalyst for economic growth
- Business serves community indirectly
  - Technological innovation, research & development, improvements to infrastructure.
  - Support education
  - Develop human resources, arts, conservation & sport
- Interdependency between business and society
  - Business: influence on physical environment, consumers, economy and competitors
  - Society: regulations, legislation, exercise choice to support business (or not), pressure on business:
    - Social responsibility
      - Responsible & safe workplace
      - Housing
      - Health
      - Involvement – community issues
      - Environmental awareness
      - Empowerment of previously disadvantaged individuals
    - Business ethics
      - Ethical behaviour of managers & executives
    - Consumerism
      - Social force protecting consumers against unsafe products & malpractice – exert moral & economic pressure on business
      - Consumer Protection Act

### 1.3. Needs & need satisfaction

*LO2: Explain the needs of society and how need satisfaction occurs.*

- People have unlimited needs
  - Maslow
    - All people have same basic needs (hierarchy of needs)
      - Physiological needs (hunger, thirst)
      - Security needs (protection)
      - Social needs (love, recognition)
      - Esteem needs
      - Self-realisation needs
    - Everybody not strive to satisfy same needs
- Society has limited resources (production factors):
  - Natural resources
    - Production factor of land, e.g. agricultural land, minerals, water etc.
    - Supply cannot be increased - scarce
  - Human resources
    - Production factor of labour e.g. physical & mental talents and skills of people employed
    - Size of labour force: size of population, level of education & training, retirement age.
  - Capital
    - Buildings, machinery etc. used to produce products, e.g. factories, equipment, roads and other infrastructure.
    - Generally long working life & high price.
  - Entrepreneurship
    - Collective capacity of entrepreneurs – risk taking to develop goods & services
    - Scarce – not everyone prepared to take risks and to identify opportunities
- Choice to decide best use of resources – Economic problem
- Economic principle – Ensure highest possible satisfaction of needs with limited resources available.
  - Which goods/services to produce/render?
  - Who should produce? ( State or private sector, individual business or industry)
  - How to produce? Use of resources. (Labour or machine intensive)
  - For whom are products produced/ services rendered? (Rich or poor, business clients or individuals/families)
  - Maximise income **after** applying economic principle



## 1.4. Main economic systems

LO3: Discuss the three main economic systems in the world

- Economic system influenced by politics
  - Countries choose economic system to address economic problem, i.e. what to produce, how and for whom.

	Market Economy (Capitalism)	Socialism	Command (Communism)
<b>Main characteristics</b>	<ul style="list-style-type: none"> <li>• Private ownership of factors of production</li> <li>• Freedom of choice</li> <li>• Minimum state interference</li> </ul>	<ul style="list-style-type: none"> <li>• Basic industries owned by State</li> <li>• Freedom of choice</li> </ul>	<ul style="list-style-type: none"> <li>• State owns &amp; controls all industries and agriculture</li> <li>• Communal ownership</li> <li>• Centrally direct economic system</li> </ul>
<b>Markets</b>	Free competition	Limited competition as a result of State industries	No competition
<b>Driving force</b>	Profit & reward achieved according to individual ability	<ul style="list-style-type: none"> <li>• Recognise profit motive</li> <li>• Employee play in State owned businesses based on workers' needs</li> </ul>	<ul style="list-style-type: none"> <li>• Profit is not allowed</li> <li>• Workers urged to work for the glory of the state</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>• Private businesses create management environment</li> <li>• Managers free to take decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Management environment: private &amp; State</li> <li>• Decisions restricted to Government</li> </ul>	<ul style="list-style-type: none"> <li>• State creates management environment</li> <li>• No freedom of decision</li> </ul>

	<ul style="list-style-type: none"> <li>• People free to choose careers</li> </ul>	<p>policy in state-owned organisations (SOO)</p>	<ul style="list-style-type: none"> <li>• Managers are party members</li> </ul>
<b>Labour</b>	<ul style="list-style-type: none"> <li>• Workers are independent</li> <li>• Can choose jobs and employers</li> <li>• Freedom to strike</li> </ul>	<ul style="list-style-type: none"> <li>• Workers can choose jobs and employers</li> <li>• Limited right to strike in SOOs.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited choice of jobs</li> <li>• Unions controlled by State</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>• Freedom of choice in free markets</li> <li>• Spending limited to income</li> </ul>	<ul style="list-style-type: none"> <li>• Freedom of choice, except iro SOO products, price &amp; quality</li> </ul>	<ul style="list-style-type: none"> <li>• Rationing of products</li> <li>• Very limited choice</li> <li>• Price of products and income levels set by State</li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Private initiative occurs</li> <li>• Economic freedom</li> </ul>	<ul style="list-style-type: none"> <li>• Possibility of full employment</li> <li>• State stabilises economic fluctuations</li> </ul>	<p>State can concentrate resources towards particular ends</p>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Environment is unstable</li> <li>• Cyclical fluctuations</li> <li>• High social costs</li> </ul>	<ul style="list-style-type: none"> <li>• Little incentive in SOOs</li> <li>• SOOs can be unproductive</li> </ul>	<ul style="list-style-type: none"> <li>• Low productivity</li> <li>• Low standard of living</li> <li>• Planning is difficult or impossible</li> </ul>

- No country has pure economy, mostly mixed
  - Economic system that includes a mix
    - Of both public and government control, or
    - Between capitalism and socialism
  - Relevant aspects:
    - Degree of private economic freedom
    - Centralised economic planning
    - Government regulation
- State & economic systems
  - State intervention to solve economic problem in market economy does **not** indicate a move towards command or centrally controlled economy.
  - Government intervention aimed at encouraging economic growth and stability
  - Control of strategic organisations cannot be left to profit seeking entrepreneurs
  - An expanding entrepreneurial role by the state does **not** lead to a democracy
- South Africa
  - Moving towards market-oriented economy
  - High degree of government participation in & control of economy

## 1.5. Need-satisfying institutions of market economy

*LO4: Explain the differences between need-satisfying institutions and non-profit organisations*

- Profit-seeking businesses
  - Privately owned or state-owned (public corporations – Telkom, Transnet, SABC)



- Government organisations
  - Generally government departments, e.g. SAPS and Department of Public Works
  - Funded from Treasury by means of taxes
- Non-profit
  - Privately owned – not strive to make profit
  - Seek sufficient income to cover costs
  - E.g. sports clubs, welfare organisations & religious organisations

## 1.6. Nature of business management & classification

*LO5: Explain the inherent nature of business management and elaborate on how the study material for business management is classified.*

- Business management
  - Primary task
    - Determine how an enterprise can achieve the highest possible output with the least possible input.
  - Management of a need-satisfying institution
  - Focus on individual organisations in the same community
  - How to manage a business as productively as possible
    - Produce the most units at the lowest possible cost
    - Achieve highest possible income
  - Activities include:
    - Research markets to determine whether there is a need for the product
    - Acquire & process raw material
    - Appointing people
    - Obtaining capital
    - Co-ordinating/managing activities



- General management
  - Overall function through which top management develops strategies for the whole business
- Operations
  - Activities to mobilise resources to create finished products/services that can be distributed to meet the needs of customers into finished goods
  - Establishment and layout of the production unit and the conversion of raw material
- Human resources
  - Driving employees to achieve their maximum potential for organisation and self
  - Guides employees to accomplish objectives & vision set by management
- Marketing
  - Marketing the products or services of the business
  - Assess market, needs of consumers & develop strategy to meet the needs
- Financial
  - Acquisition, utilisation and control of money business needs to finance its activities
  - Ensure maximum profitability of the business, without the danger or insolvency or liquidation
- Public relations
  - Creates favourable image of the business
  - Promote goodwill between business & external groups that are directly/indirectly involved in the business
- Purchasing
  - Acquisition of all products and materials required by the business to function profitably

## 2. Entrepreneurship

### 2.1. Key concepts

*Entrepreneur, entrepreneurship, role of entrepreneur, motivation of entrepreneurs, small business, entrepreneurial process, skills required of an entrepreneur, resources needed to start a new business, starting a new business, buying an existing business.*

### 2.2. Entrepreneurs & entrepreneurship

*LO1: Explain the concept of entrepreneurship.*

- Process of identifying, creating or sensing opportunity where others do not see it
- Finding & combining resources to pursue the opportunity until it becomes a successful established business

*LO2: Define an entrepreneur.*

- Person or personality type that takes up a new venture and is willing to accept full responsibility for the outcome
- Take initiative and risk by harnessing production factors to produce goods/services
- Have innovative ideas
- Identify opportunities
- Find resources to pursue opportunities for personal gain
- Take financial risks
- Bring about change, growth and wealth in economy
- Re-energise economy and create jobs
- Start, manage and grow small business
- Motivated by achievement

### 2.3. Role of entrepreneurs & small-business owners in society

*LO3: Describe the roles that entrepreneurs and small-business owners play in the SA economy.*

What constitutes a small business?

- Management is independent, i.e. owner also manages business
- Capital is provided by entrepreneur or few people starting business together
- Activities of enterprise are mainly local
- Enterprise is small in comparison to largest competitors in relevant industry, i.e. does not dominate the industry
- National Small Business Act
  - Less than 200 employees
  - Annual turnover < R64m
  - Direct managerial involvement
  - Capital assets < R10m

General classification

- Survivalist

- Informal sector
- Mainly undertaken by unemployed
- Income generated below the poverty line, provide minimum means to keep owner and family alive
- Little capital invested, not many assets
- Not much training
- Growth opportunities very limited
- 1-5 employees, usually owner & family
- Example: street vendor
- Micro
  - Turnover below R200K
  - Basic business skills & training
  - Potential to make transition to viable formal small business
  - Part of formal economy & make use of technology
- Very small
  - < 10 paid employees
- Small
  - Owner-managed, but more complex management structure
  - Up to 200 employees (generally 50 or less, depending on industry)
- Medium
  - Mainly owner-managed, but decentralised management structure with division of labour
  - Operates from fixed premises with all formal requirements
  - Less than 200 employees
  - Annual turnover < R64mil
  - Direct managerial involvement
  - Capital assets < R10mil

Entrepreneurs differ from small-business owners

- Small-business owners
  - Satisfied with some autonomy & earning reasonable income for themselves
  - No intention of growing & developing business entrepreneurially
  - Merely alternative to working as employee
  - Satisfy owner's need for independence or lifestyle needs

Role of small business

- Production of goods & services
- Innovation
- Aiding/supporting big business
- Job creation

## 2.4. Entrepreneurial process

*LO4: Discuss how to become an entrepreneur.*



*LO5: Discuss the skills and resources required to become an entrepreneur.*

Resources needed:

- Financial resources
  - Cash, bank overdraft, loans or investment capital
  - In considering application for finance, banks generally the 4Cs which include collateral, capital, character & conditions (4Cs does not include capacity and cash flow).
- Human resources
  - Management team, accountant, lawyer, consultants etc.
  - Obtaining a BCom degree as it will equip a person with a certain level of skill and ability to be able to produce the products and services required.
- Physical/operating resources
  - Assets e.g. offices, vehicles, equipment, raw materials, machinery etc.

Reasons why an entrepreneur starts a business:

- Traits & characteristics:
  - Achievement motivation
    - Higher need to achieve
    - Characterised by actions of intense, prolonged and repeated effort to accomplish something that is difficult
    - Ambition & competitiveness
    - Attracted to activities that challenge skills and problem-solving abilities
  - Internal locus of control
    - Feeling that person is in control of his own destiny
    - Believe outcome of an event is determined by own actions
    - Control over own behaviour, persuade & motivate others, actively seek relevant information and feedback
  - Innovation & creativity
    - Creativity – new ideas
    - Innovation – application of new ideas
  - Risk-taking
    - Calculated risk – research and gather information before making decision
  - Other traits

- High levels of energy, confidence, future orientation, optimism, desire for feedback, high tolerance for ambiguity, flexibility/adaptability and commitment
  - Skills & industry experience
    - Experience, training and education in a specific field
    - Necessity entrepreneurs (e.g. job termination) v opportunity entrepreneurs
    - Skills (knowledge demonstrated by action)
      - Strategy – position business in competitive environment
      - Planning – plan for future of business
      - Marketing – identify target markets, identify wants/needs of market
      - Financial – manage business’ finances
      - Project management – organise business activities
      - Human relations – deal with employees
  - Outsourcing opportunities
    - Work done for a company by people who are not employed by the company
    - Example: food services (catering), security, cleaning services

*LO6: Distinguish between and describe the different ways in which an entrepreneur may start a business.*

- New business
  - New venture ideas
  - New venture opportunities
    - Fundamental requirements for good investment opportunity
      - Clearly defined market need for product/service
      - Able to achieve sustainable competitive advantage
      - Potential to grow
      - Rewarding to entrepreneur and/or investor
      - Timing right
- Acquire existing business

	Advantages	Disadvantages
Business location	Customers familiar with business location	Location may be undesirable
Customers	Established customer base	Image of business may be difficult to change
Employees	Obtain experienced employees	Employees inherited rather than chosen
Business	Planning based on known historical data	Potential liabilities for past business contracts
Inventory & equipment	In place	Potentially obsolete
Financing	May be available from owner	Could drain cash flow &

threaten survival of business

- Franchise
  - Opportunity to start a business that has been proven in the marketplace
  - Have to adhere strictly to plans/directions of franchisor
  - Franchisor = entrepreneur, franchisee = intrapreneur
- Corporate entrepreneurship (intrapreneurship)
  - Introduce new and diverse products/services to existing business
  - Internal processes
  - Use corporation's resources

#### Feasibility study

- Collection of data that helps forecast whether an idea/opportunity/venture will survive
- Assist in decision-making process whether entrepreneur should risk the venture
- Precedes business plan

*LO7: Discuss the implications of choosing a specific business opportunity.*

### 3. Establishing a business

#### 3.1. Key concepts

*Legal personality, partnership, control, authority, ownership of a business, tax liability, sole proprietorship, business location, close corporation, company, legal requirements, business plan.*

#### 3.2. Importance of geographical location

*LO1: Identify the factors that influence the location of a business.*

- Sources of raw materials
- Availability of labour
- Proximity & access to the market
- Availability & cost of
  - Transport facilities
  - Power & water
  - Site & buildings
- Availability of capital
- Attitudes, regulations and tariffs of local authorities
- Existing business environment
- Social environment
- Climate
- Central government policy
- Personal preference

#### 3.3. Legal forms of ownership

*LO3: Discuss the key considerations that are applicable when a form of business has to be chosen.*

- Legal/juristic personality
- Limited liability
- Degree of control/management
- Potential for capital acquisition
- Legal formalities & regulations
- Taxation
- Ease with which business or entrepreneur's interest can be transferred

*LO2: Distinguish between the different forms of ownership in SA.*

- Sole proprietorship
- Partnership
- Close corporation
- Company
- Business trust
- Co-operative society
- Joint ventures



## Sole proprietor

- Owned & managed by one person
- No separate legal personality
- Capital acquisition potential depends on owner's financial strength & creditability
- Business name must comply with Business Names Act
- Very few formalities & legal requirements for establishment – least expensive business form
- Owner personally liable for business debts & claims against enterprise
- Personal income tax
- Enterprise income forms part of owner's personal income
- Transfer of ownership – reasonably simple
- Continuity – linked to lifespan and legal capacity of owner
- Advantages
  - Simple to create
  - Least expensive way to start a business
  - Owner has total decision-making authority
  - No special legal restrictions
  - Easy to discontinue
- Disadvantages
  - Owner is personally liable without limitation
  - Limited diversity in skill and capabilities
  - Owner has limited access to capital
  - Lack of continuity

## Partnership

- 2 or more partners (limitation of 20 removed by new Companies Act)
- No formal requirements for setting up partnership (generally partnership agreement – orally, written or tacit)
- Joint control & authority over business – 'mutual mandate'
- No separate legal personality
- Capital acquisition potential – better than sole proprietor (each partner makes initial contribution)
- Partners jointly & severally liable for partnership debts
- Tax liability – each partner individually
- Distribution of organisation's profits – per partnership agreement or in accordance with initial contribution
- Transfer of ownership – more difficult – partnership agreement conditions
- Continuity – limited to continued involvement of partners ( death, insolvency, insanity etc.)
- Advantages
  - Ease of formation
  - Diversification of skills & abilities of partners
  - Increased opportunity for acquiring capital

- Minimal legal formalities & regulations
- Disadvantages
  - Personal liability of partners
  - Relative difficulty of disposing partnership interest
  - Potential conflict between partners
  - Lack of continuity (can be overcome by agreement)

#### Close corporation

- 1 – 10 members (only natural persons)
- Members own & control CC
- Legal personality
- Capital acquisition potential higher than partnership
- Name end in “CC”
- Close Corporations Act and Companies Act
- Limited liability of members
- Tax liability – separate taxpayer – corporate tax rate
- Distribution of organisation’s profits – in accordance with association agreement
- Transfer of ownership – easier than partnership
- Continued existence
- No new registrations (previously submitted a founding statement to register)
- Advantages
  - Advantages attached to separate legal (juristic) personality
  - Reasonably cheap and inexpensive to form (no longer possible to form new CCs)
  - Members have limited liability
  - Increased capital acquisition potential
  - Management is relatively simple
  - Continuity
- Disadvantages
  - Membership limited to 10
  - Juristic persons may not be members

#### Company

- Separation of ownership and control (Shareholders and Board of directors)
- Legal personality
- Potentially unlimited capital acquisition potential
- Subscription to shares
- Profit companies (State-owned ‘SOC’, private, personal-liability and public companies) and non-profit companies.
  - Private company
    - 1 – 50 shareholders
    - Restriction on transfer of shares
    - (Pty) Ltd

- At least 1 director
  - Public company
    - At least 7 shareholders
    - At least 2 directors
    - Shares freely transferable
    - Ltd
- Complex requirements
- Limited liability, increased burden on directors
- Tax liability – corporate tax rate
- Distribution of organisation’s profits – in accordance with dividend policy
- Transfer of ownership – easy – sell shares
- Continuity
- Advantages
  - Limited liability
  - Ability to raise large amounts of capital
  - Continuity
  - Transferability of shares
- Disadvantages
  - High degree of legal regulation
  - High operational cost

#### Business trust

- Unlimited beneficiaries
- Managed by trustees
- Legal personality – yes to new Companies Act
- Limited capital acquisition potential
- Very little regulation
- Limited liability
- Separate tax payer – higher tax rate
- Distribution of organisation’s profits – in accordance with trust deed
- Transfer of ownership – amend trust deed
- Continuity
- Advantages
  - Ease of formation
  - Limited liability
  - Extreme flexibility
  - Absence of legal regulation
  - Continuity
- Disadvantages
  - Limited access to capital
  - Potential for conflict between parties

#### Co-operative society

- Mainly in agricultural sector
- Similar to private company
- Co-operatives Act
- Benefits
  - Economies of scale
  - Equity is generated
  - Increased incentives for workers
  - Encourage public good – creates employment opportunities

#### Joint venture

- Co-operation between persons or businesses
- Legal consequences depends on specific agreement between parties

### 3.4. Business plan

*LO4: Describe the objectives of, importance of and need for a business plan.*

#### Main objectives

- Identification and description of the nature & content of the business opportunity (Why does opportunity exist?)
- Explain how entrepreneur will develop the opportunity
  - Systematic and realistic evaluation of new venture's chances of success in the market
  - Identification of key success factors and primary risks
  - Description of how business will be managed – management & operating plan
- Attract investors or other institutions to provide financial resources by illustrating viability of the business idea.

#### Additional objectives

- Management instrument & framework against which actual performance can be measured

#### Importance

- Overall importance = planning activities
- Reasons for drafting a business plan
  - Sell the business to self
  - Obtain bank financing
  - Obtain investment funds
  - Arrange strategic alliances
  - Obtain large contracts
  - Attract key employees
  - Mergers & acquisitions
  - Motivate & focus management team

#### Stakeholders

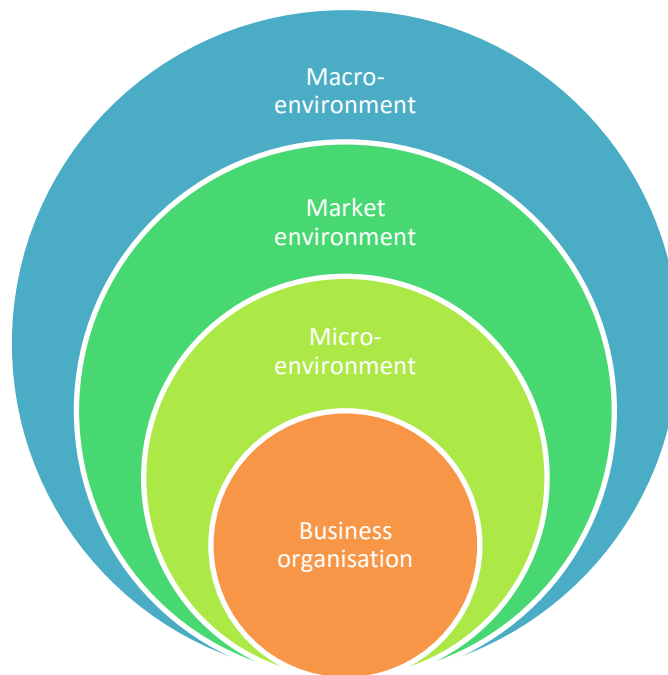
- Internal
  - New venture management
    - Vision, mission, key objectives & overall strategy
  - Employees
- External
  - Customers
  - Investors
  - Banks – 4Cs (Capital, collateral, character & conditions)

*LO5: Describe the various components of a business plan.*

- Cover page & executive summary
  - Executive summary holds together and unifies other components of the plan
  - Overview of total business plan
  - Write after other sections completed – highlights significant points
- General description of the venture
  - Extension of feasibility analysis
  - Explain type of business & give history if it already exists
  - Type of industry and legal form
  - Current status: start-up, buy-out or expansion
  - Mission statement
- Product-and-services plan
  - Describe product and/or service & point out unique features
  - Explain why people will acquire product/service
- Marketing plan
  - Identify potential customers and competition
  - Outline marketing strategy & specify competitive edge
- Management plan
  - Identify 'key players': active investors, management team and directors
  - Cite their experience and competence
  - Plans for recruiting & training employees
- Operating plan
  - Explain type of manufacturing/operating systems business will use
  - Describe facilities, labour, raw materials and processing requirements
  - Sources of supply and purchasing procedures
- Financial plan
  - Specify financial needs & contemplated sources of financing
  - Projections of revenue, costs and profit. (1-5 years)
  - Assumptions & explanations
- Supporting materials

*LO6: Write up a business plan.*

## 4. Business environment



### 4.1. Key concepts

*Business environment, micro-environment, market environment, environmental change, macro-environment, composition of the business, environmental scanning, environmental SWOT analysis*

### 4.2. The organisation & environmental change

*LO1: Explain the meaning of environmental change.*

- Change refers to any alteration in the status quo
- Environmental variables
  - Technological innovations
  - Economic fluctuations
  - New laws
  - Social factors

### 4.3. Composition of business environment

*LO2: Explain the nature and composition of the business environment.*

Business environment

- Sum of all variables which may influence the successful existence of the organisation
- System approach to management: organisation is integral part of its environment and should adopt to it
- Characteristics
  - Interrelatedness of the environmental factors/variables
  - Increasing instability & change
  - Environmental uncertainty – depends on amount of relevant information available

- Complexity of environment – result of number of external variables

*LO3: Discuss each of the components of the environmental model.*

#### Micro-environment

- Business itself – workers, managers & functional areas
- Management has almost complete control
  - Vision, mission, objectives, business functions and resources
  - E.g. pricing & recruitment decisions
- Analysis allows management to identify strengths, weaknesses to utilise opportunities and counter threats
- Will influence market environment through strategy employed

#### Market environment (aka Task environment)

- Immediate external sub-environment that has direct influence on the business
- Management can exert some control – influence variables through strategy applied
- Key variables:
  - Consumers, competitors, suppliers & distributors/intermediaries
- Give rise to opportunities & threats

#### Macro-environment

- Greater external environment that influence business
- Management has least control
- Variables
  - Technological environment
  - Economic environment (e.g. inflation, exchange rates, interest & fiscal policy)
  - Social environment (e.g. consumer life style, habits, values & culture)
  - Physical environment (Natural resources incl. minerals and manufactured improvements e.g. roads)
  - Institutional environment (government and its political & legislative involvement)
  - International environment (local & foreign political trends)

*LO4: Explain how each of the environmental variables can impact on an industry or an individual business.*

*LO5: Describe some ways in which management should respond to the influences of the environment.*

## 4.4. Micro-environment

### Components

- Vision, mission and objectives of the business
  - Vision – What does organisation want to become?
  - Mission – What is the business?

- Enduring statement of purpose that distinguishes one business from other similar firms
    - Foundation for development of long-term objectives
  - Objectives – e.g. market share, profitability, worker empowerment
- Organisational functions (management)
  - Purchasing, logistics, marketing, financial etc.
- Resources
  - Include human resources (salaries, recruitment policies & staff retention)
  - Tangible resources
    - Production facilities, raw materials, financial resources, property, computers and other machinery/equipment.
  - Intangible resources
    - Brand names, patents, trademarks, reputation, technical knowledge, organisational morale & accumulated experience
  - Organisational capabilities
    - Ability to combine resources, people and processes in a particular way
  - Fight against HIV – Why?
    - Not only macro-environment (social) concern – internal policies
    - Better opportunities for growth in the market
    - Increased productivity
    - Decreased cost of healthcare
    - Reduced employer liability
    - Continued workforce diversity
    - Lower rates of employee turnover
    - Improved employee morale

## 4.5. Market or task environment

### Description

- Also known as task environment
- Immediate consumer, supplier and the intermediate market in which competitors also operate
- Consists of variables that revolve around competition
- Source of opportunities & threats
  - Threat - unfavourable condition or trend within the market environment

### Components

- Consumer market
  - People who have needs to satisfy and financial means to do so
  - Understand
    - Wants and needs of consumers
      - Macro-economic influences – demographics, # consumers
      - Industrial market – goods/services supplied for further manufacturing



- Government market – goods/services acquired by government departments and institutions
    - Durable & semi-durable products and services
      - Purchasing power
        - Consumer’s personal disposable income
      - Buying behaviour
  - Keep track of changes
- Supplier market
  - Material – raw material, manufactured goods, equipment and energy (electricity etc.)
  - Capital - financial resources (banks & shareholders)
  - Labour – incl. organised labour (trade unions & labour brokers)
- Intermediaries
  - Institutions bridging the gap between manufacturer and consumer
  - E.g. wholesalers, estate agents and brokers
- Competitors
  - Rival businesses competing for consumer spending
  - Factors influencing nature and intensity of competition
    - Possibility of new entrants (or departures)
    - Bargaining power of clients and customers
    - Bargaining power of suppliers
    - Availability of substitute products/services
    - Number or existing competitors

Keeping an eye on the trends

- Environmental scanning, market research and information management

## 4.6. Macro-environment

Description

- Uncontrollable forces in external environment – mega-trends

Components

- Technological environment
  - Technological innovation, research & development, incl. medical cures
  - Continued assessment
    - Identify important technological trends
    - Analyse potential changes in important current & future technology
    - Analyse impact of important technologies on competition
    - Analyse organisation’s technological strengths and weaknesses
    - List priorities that should be included in technology strategy
  - Priority trends
    - Water, minerals, marine, agricultural, medical, transport & power
- Economic environment

- Measure of country's economic well-being/growth – gross domestic product (GDP) – preferably 7-8%
  - GDP influences consumer buying power
- Business cycle – upswing/downswing – impacts of stock levels
- Inflation
- Government's monetary policy
  - Money supply, interest rates and strength of currency
- Government's fiscal policy
  - Tax and tax reforms
- Economies of surrounding countries
- Social environment
  - Demographic change
    - Change in the growth and composition of populations
    - Impact on needs, income, behaviour of consumers & employment patterns
  - Urbanisation
    - Movement of people from rural areas to cities
    - Impacts on housing, sanitation, slum control & health services
  - Level of education
    - Increased skill level
    - Increased demand for books etc.
    - More sophisticated consumers – quality of products, advertising & working conditions
  - Changing role of women
    - Increased economically active women
  - Consumerism
    - Social force protecting consumers by exerting legal, moral, economic and political pressure on management
    - Consumer rights
      - Right to safety (protection against goods that are dangerous)
      - Right to be informed (objective information to make decisions)
      - Right to freedom of choice (substitute/competitive products & protection against monopolies)
      - Right to be heard
    - Consumer Protection Act of 2008
  - Social responsibility & business ethics
    - Management should consider consequences of decisions & actions on society
    - Corporate social responsibility (CSR)
      - Businesses are more than profit-seeking entities and should therefore have an obligation to benefit society (good corporate citizenship)
    - Business ethics
      - Ethical behaviour of management & executives
    - Ethics

- Guide to moral behaviour based on culturally embedded definitions of right & wrong
  - Employees
    - Employment equity, safe working conditions, respect
  - Consumers & customers
    - Safe products, objective information, no misleading advertising
  - Investors & financial community
    - Accurate financial reporting, no insider trading and bribes
  - General public
    - Conservation, philanthropic donations, avoiding unlawful competition, public health (incl. AIDS)
- HIV/Aids
- Culture
- Physical environment
  - Physical resources people need to support life and development
  - Issues of most concern
    - Population & health patterns
    - Food
    - Water
    - Energy & climate
    - Biodiversity
  - Opportunities/threats
    - Cost of energy & pollution
    - Environmentalism (conservation & eco-tourism)
    - Scarce resources (substitutes)
- Institutional-political environment
  - Regulatory
    - Legislation, annual budget, tax, import/export control & tariffs, price control, health regulations
  - Government expenditure
- International environment
  - Globalisation – borderless world

#### 4.7. Environmental scanning

- Process of systematic measurement, projection and evaluation of change in environments
- Identification of every opportunity and threat
- Importance
  - Keep abreast of continually changing environment
  - Determine which factors & patterns
    - Pose threats to existing goals and
    - Represent opportunities to promote current goals
- Extent of environmental scanning depends on:
  - Basic relationship between business and its environment
  - Nature of environment & demands made by business
  - Source & extent of change

- Forms of scanning
  - Basic: collection & updating of secondary information (public knowledge – articles etc)
  - More advanced: collection of primary information or special investigations
  - Advanced: establish a formal environmental scanning division/unit and use industrial analysts to make market forecasts
- Continuous process

## 5. Corporate social responsibility

### 5.1. Key concepts

*Corporate social responsibility, corporate citizenship, triple bottom line, citizenship imperative, stakeholder mapping, stakeholder engagement, corporate governance, business case for implementing CSR, sustainable development*

### 5.2. Introducing CSR

### 5.3. Terms and trends

*LO1: Distinguish between the different terms and concepts in the field of CSR.*

#### Triple bottom line

Financial, social & environmental impact of business

#### Sustainable development

Need to improve lives of poor people & protect natural environment. Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

#### Corporate social responsibility (CSR)

AKA corporate citizenship. How business make profits, including ethics

#### Corporate social investment (CSI)

Companies' philanthropic initiatives. Spending small part of profits on good causes. Only one component of CSR

#### Sustainability reporting

Increasing expectation – companies not only report on financial matters. Social & environmental matters as well.

#### Corporate governance

How Company objectives, strategy & decision making structures are developed, implemented and monitored. Extent to which company is accountable to stakeholders

### 5.4. Citizenship imperative

*LO2: Discuss the imperatives for good CSR in SA.*

#### 5.4.1. Global drivers

- Pressure on companies to demonstrate good social corporate responsibility practices
  - United Nations Global Compact
  - Global Reporting Initiative (GRI) – reporting guidelines & indicators

- AA1000 Framework – establish systematic stakeholder engagement process that generates indicators, targets & reporting standards to ensure effectiveness in overall organisational performance.
- ISO14000 – International standards
- Organisation for Economic Co-operation and Development (OECD) – Guidelines on Multinational Enterprises
- SA8000 – Labour conditions (Social Accountability International)
- Dow Jones Sustainability index
- Kyoto Protocol

#### 5.4.2. SA Initiatives & imperatives

- Legislation
- King Code on Corporate Governance
- JSE Socially Responsible Investment Index (criteria to measure the triple bottom line performance of companies in FTSE/JSE All Share index who choose to participate)
- Industry charters (promote socioeconomic transformation & create equitable economic playing field)

### 5.5. Business case for CSR

Being a good corporate citizen can contribute to a company's profitability

Benefits of CSR:

- Savings resulting from energy-savings technology
- Positive reputation resulting in client loyalty, attracting higher-quality employees and improving relationships with investors
- Competitive advantage and value creation.
- Investor confidence – access to capital
- Revenue growth & market access
- Risk management & licence to operate
- Brand value & reputation

SWOT analysis (Strengths, Weaknesses, Opportunities, Threats)

	Threats	Opportunities
BEE Legislation	<ul style="list-style-type: none"> <li>● Lower competitiveness (appointment of lower skilled persons)</li> <li>● Less investor confidence</li> </ul>	<ul style="list-style-type: none"> <li>● Empowerment of disadvantaged individuals</li> <li>● Increased competitiveness into government business</li> <li>● Investor's confidence in company's ability to manage change &amp; retain profits</li> </ul>
HIV/AIDS	<ul style="list-style-type: none"> <li>● ↓ productivity</li> <li>● ↑ medical costs</li> </ul>	<ul style="list-style-type: none"> <li>● Positive contribution to employee wellness</li> </ul>

- Lack of continuity
  - ↑ training costs
  - Developing partnerships with government & NGO's
- Minimum wages
- ↑ operating costs (salaries/wages)
  - Improved living standards
  - ↑ employee morale, productivity & retention
- Regulatory requirements (i.e. charters)
- More formalities, paperwork
  - Cost of compliance
  - Attract foreign investment

Threats	Opportunities
Labour shortages	Access to new pools of labour from education and training programmes and community involvement
Low productivity and quality because of poor labour practices and skill levels	Higher productivity levels because of better trained staff and higher standards
Missing new market opportunities, and the erosion of traditional markets	New markets through an improved understanding of consumer needs
Product obsolescence through low levels of innovation and inappropriate technology	New products and markets through the application of new technologies
Failure to anticipate new social and regulatory requirements	First mover advantage by anticipating the impacts of social pressures
Vulnerability because of low investor confidence	Lower cost of capital because of greater investor confidence in a company's ability to manage change
Higher cost levels from increased regulation of old technology	Lower compliance costs by being ahead of regulations
Recruitment and customer retention problems through poor reputation	Enhanced reputation leading to greater staff, customer and investor loyalty

## 5.6. Corporate governance

- Way in which organisation make decisions & decides to manage its affairs
- Cadbury – balance between
  - Economic & social goals
  - Individual & communal goals

to align as nearly as possible the interests of individuals, corporations & society
- King Reports
  - Transparent leadership - answerable & accountable to organisation's stakeholders
- Roles & responsibility
  - Board of directors
    - Fiduciary relationship (trust)
    - Define strategy
    - Executive & non-executive directors

- Independent director – non-executive with no existing or prior business, employment, consultancy or other relationship with company
    - Chairman
  - Management
    - Implement strategy defined by Board
    - Chief Executive Officer (CEO)
- Embed CSR at Board level (CSR committee) – establish policy
  - Values-based system : Align CSR policy to organisation’s vision, mission & guiding principles
  - Stakeholders-engagement process : reactive approach
- Policy document should include:
  - Company’s vision, commitment, goals & targets for CSR

## 5.7. Stakeholder & stakeholder engagement

*LO3: Draw a stakeholder map for an organisation, indicating the different categories of stakeholders.*

Stakeholders are those people/groups who are affected by or can have an effect on a company

- Internal or external
- Primary or secondary
- Engagement process
  - Start by mapping all internal & external stakeholders, define their role & impact on organisation to determine the most appropriate manner to engage with them.
  - Prepare
  - Plan
  - Design
  - Engage
  - Evaluate
  - Apply
- Engagement methods
  - Focus groups – questionnaires
  - Market research
  - Personal visits
  - Meetings
  - Road shows
  - Interviews

## 5.8. Sustainable development

Development that meet the needs of the present without compromising the ability of future generations to meet their own needs.



## 5.9. Link between CSR & various business functions

*LO4: Explain the business case for CSR as it relates to the various business functions.*

- CEO/top management
  - Responsible for managing whole organisation, including strategy, financial performance.
  - Oversee all functional areas
  - Specific ways in which CSR can be useful → policies, corporate reputation & risk management
- Operations
  - Ensure that products/services produced in timely, cost effective way
  - Beat competitors on price, innovation & quality
  - CSR create new market opportunities & increase competitiveness
  - Total Quality Management (TQM) – development & delivery of quality products
- Finance
  - Controls budget
  - Access to capital
  - CSR provides opportunities to unlock capital – reputation
- Procurement
  - Choice of suppliers - support
  - Preferential Procurement Act – promote sustainable BEE
- Human resources
  - Increase employee satisfaction & loyalty, improve recruitment & retention
  - Policies & procedures
  - Treatment of employees
  - Key performance areas (KRA's)
  - Legislation
    - Labour Relations Act, Employment Equity Act, Basic Conditions of Employment Act
- Risk management
  - Increased difficulty : globalisation of risk, heightened surveillance, increased demands for transparency
  - Increased social & environmental risk: Unemployment, HIV/AIDS, poverty.
- Marketing & public relations
  - Effective development & delivery of satisfactory product offering to the market – meets needs of organisation, consumer & community
  - Responsible advertising
  - Cause-related marketing

## 6. Planning

### 6.1. Key concepts

*Goal, management (top, middle and lower), goal-setting by management, planning process, strategic goals, functional (tactical) goals, operational goals, hierarchical approach, development of plans, management by objectives (MBO)*

### 6.2. Why planning is needed?

*LO1: Explain why planning is needed in the organisation.*

Planning is process of setting goals and deciding how to achieve it.

Benefits of planning:

- Gives direction (road map)
  - Goals – desired future state over fixed period of time
  - Plan – how goals are to be achieved
- Helps with coordination, cohesion and stability of organisation
- Force organisation to look at future & anticipate change
- Reduces impact of change : future-orientated thus minimise threats
- Facilitates control
- Resource planning
- Motivate employees

Costs of planning

- May create rigidity
- Consumes management's time
- Replace intuition & creativity
- Cause delays in decision-making

### 6.3. Managerial goals and plans

*LO2: Explain what a goal is.*

Goal is desired future state that the organisation sets for itself over a fixed period of time.

Nature of goals:

- Time period: long-term, medium-term or short-term
- Publicly stated or not

*LO5: Discuss the requirements that must be met when setting goals.*

Goals need to be SMART:

- Specific (provide road map – everyone needs to know what is expected of them)
  - What the goal relates to, the period & specific desired results
- Measurable (objective & quantifiable)
- Attainable (Assign responsibility to attain goals to specific people)

- Realistic & challenging
- Relevant
  - Relate to organisation's mission & strategic goals
  - Horizontal consistency – departmental objectives are consistent
  - Vertical consistency – departmental & subsection goals are consistent
- Time-bound (specific time limit)

#### Management by objectives (MBO)

- Managers & employees jointly set goals
  - Improves employee motivation
- Progress towards attainment of these goals is periodically assessed.
- Process:
  - Manager & employee has initial discussions – clear job description & KPA's
  - Employee establishes potential key performance targets.
  - Manager & employee meet to develop set of goals and agree on checkpoints to evaluate employee's progress
  - Manager evaluate degree of goal-attainment

## 6.4. The planning process

*LO3: Discuss the steps in the planning process.*

Dynamic process. Forms foundation of other management tasks.

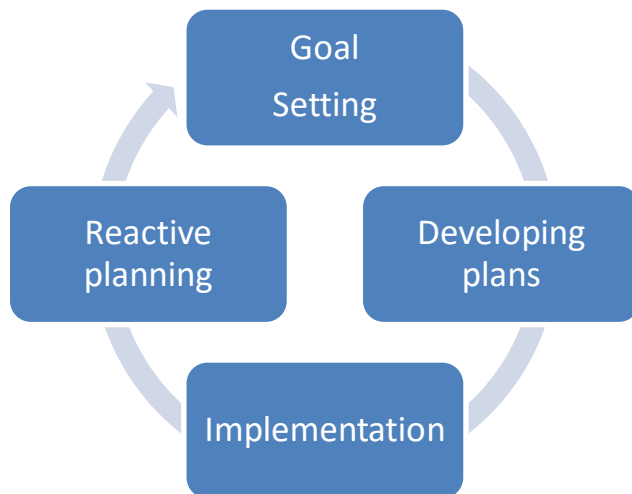
Planning parameters:

- Organisation's mission (purpose)
- Environment
- Manager values
- Manager experience

Planning steps:

- Goal-setting
  - Consider organisation's mission
- Developing plans
  - Based on information obtained from environmental scan
  - Develop alternative plans
  - Evaluate alternative plans
  - Select a plan
- Implementation
  - Through other management functions (organising, allocation, leading & control)
  - Develop framework for execution of plans
- Reactive planning
  - Feedback loop – 'learn from mistakes'
  - Also when changes occur in environment

- Deviation from plans



## 6.5. Setting organisational goals and developing plans

*LO4: Compare the different organisational goals used by top, middle and lower management.*

- Strategic goals
  - Top management
  - Organisation as a whole
  - Future orientated, e.g. the broad plan of how organisation is going to compete in its industry
  - Vision (picture of the future)
  - Mission (over-arching goal of organisation – sets apart from other organisations in same industry)
    - What is our business? (products & services)
    - Who are our customers? (markets)
    - How do we provide our products or services? (technology)
  - 3-10 years
- Functional goals
  - AKA tactical goals
  - Determined by middle management
  - 1 – 3 years
- Operational goals
  - Short term goals
  - Set by lower-level managers
  - Cover maximum period of 1 year

*LO6: Compare the different plans that can be used by the organisation.*

*LO7: Differentiate between strategic, functional and operational planning.*

- Strategic plans
  - Focus on organisation as a whole – synergy
  - Access to necessary information about organisation & business environment

- Interpret opportunities & threats
- Think conceptually, integrating consequences of alternative strategic plans & resource needs
- > 5 years
- Filters down to form basis of functional & operational plans
- Corporate strategy – scope of organisation & how managers deploy resources.

Include:

- Market-development strategy
    - Develop existing markets for present products more intensively
    - Develop new markets for existing products
  - Product-development strategy
    - Develops new products for existing markets
    - Modifies existing products to win greater approval among consumers
  - Concentration-growth strategy
    - Directs all resources & skills to profitable growth of single product in single market
  - Innovation strategy
    - Constantly improve products to take advantage of initial high profitability of a better product
  - Horizontal-integration strategy
    - Take over similar organisations
  - Vertical-integration strategy
    - Take over businesses above or below in supply chain
  - Joint-venture strategy
    - 2 or more firms embark on a project that is too big for one firm to undertake on its own
  - Diversification strategy
    - Takes over other businesses to enter new activities
    - Sets up completely new entity
    - Spreads risk, synergy & quicker growth
  - Turnaround strategy
    - Difficult times
    - Cut costs: terminate unprofitable products/assets/management
  - Divestiture strategy
    - Selling business or part thereof in line with organisation's mission
  - Liquidation strategy
    - Keep shareholders' losses to minimum after organisation failed.
- Functional plans

- Middle management (heads of departments) sets functional plans based on strategic plans
- More specific focus
- Deal with people & actions
- Take into account
  - Resource allocation
  - Time issue
  - Human resource commitments
- Operational plans
  - Middle & lower level managers develop operational plans
  - Period < 1 year
  - Single-use plans
    - To achieve goals which are not likely to be repeated
    - Program
    - Project (smaller in scope than program)
    - Budget – numerical plan for allocating financial, human, physical & informational resources to specific activities
  - Standing plans
    - Ongoing plans that provide direction for tasks that are performed repeatedly
    - Policies (define boundaries for decision making)
    - Rule (Prescribe what an employee may or may not do in a specific situation)
    - Standard procedures (define precise series of steps to attain certain goals)

#### Lower level managers

- Focus planning narrowly with short time horizons
- Perform the management functions of planning & control
- Use information that is specific and quantitative when planning
- Use standing plans

#### Middle-level managers

- Develop plans focused in functional areas
- Perform the management functions of planning & control
- Set tactical goals
- Implement strategic plans

#### Top-level managers

- Focus on creating & maintaining a competitive advantage for the organisation
- Perform the management functions of planning & control
- Create vision of the future for the organisation
- Focus on entire organisation

## 7. Organising

### 7.1. Key concepts

*Importance of organising, mechanisms, structure, fundamentals of organising, specialisation, departmentalisation, responsibility & authority, centralised & decentralised, authority relations, span of control, informal organisation*

### 7.2. Introduction to organisation

*LO1: Analyse organising as a management task,( including contemporary structures and design), demonstrating how this serves as a framework for the activities of the organisation.*

*LO2: Explain the concepts of organising and organisational structure.*

Organising: Mechanisms developed by management to implement the strategy or plan.

Organisational structure:

- Set of formal tasks assigned to individuals & departments
- Formal reporting relationships (lines of authority, responsibility, hierarchical levels & span of management control)
- Design of system to ensure effective co-ordination of employees across departments

### 7.3. Importance of organising

*LO3: Describe the importance of organising.*

- Organising entails the detailed analysis of work to be done & resources to be used
  - Systemise tasks, resources, methods, procedures.
  - Joint co-ordinated efforts of management
- Divide total workload into activities that can comfortably be performed by individual/group.
  - Allocate tasks according to individual's abilities/qualifications
- Promote productive deployment & utilisation of resources
- Related activities are grouped together in specialised departments
- Develop mechanism to co-ordinate activities of whole business into complete, uniform, harmonious units.

### 7.4. Fundamentals of organising

*LO4: Discuss the fundamentals of organising.*

#### 7.4.1. Specialisation

- Designing jobs for employees
  - Determine employee's work-related responsibilities
- Determine degree/level of specialisation
  - Tasks broken up into smaller units to take advantage of specialised knowledge/skills to improve productivity
  - Job specialisation generally extension of organisational growth
  - Benefits

- Workers can become very proficient at each task
    - Transfer time between tasks decrease
    - Easier to develop specialised equipment to assist with specialised task
    - Can train new person at relatively low cost
  - Limitations
    - Employees may become bored & dissatisfied – absenteeism & lower quality of work
    - Timing
- Job rotation
  - Systematically moving employees from one job to another
  - Training device to improve worker skill & flexibility.
- Job enlargement
  - Increase total number of tasks that worker performs – variety of tasks
  - Disadvantages: higher training costs, pay increases, work remain boring
- Job enrichment
  - Increase number of tasks & control employee has over job
  - Delegate more authority
  - Continually assign new & challenging tasks : increase growth opportunities
- Work teams
  - Entire group design work system – interrelated set of tasks

#### 7.4.2. Departmentalisation

- Grouping employees into teams/departments based on what they have in common
- Organisation can be designed according to the following
  - Business (Functional departmentalisation)
    - Activities belonging to each management function grouped together
    - E.g. marketing, finance, production, human resources
  - Product
    - Activities concerned with the manufacturing of product/ group of products grouped together in product sections
    - Increased administrative costs – duplicate functions
    - Decisions quick within section
  - Location
    - Geographic areas
    - Decentralise decision making & adjust to local business environment
    - Suitable for multi-national businesses
  - Customer
    - Group based on market segments
  - Matrix
    - Ad hoc & complex projects
    - Horizontal (staff) & vertical (line) authority lines



### 7.4.3. Reporting relationships

- Establish reporting lines
  - Who reports to whom?
- Chain of command
  - Clear & distinct line of authority among positions in organisation
  - Unity of command
    - Each person must have clear reporting relationship to 1 supervisor
  - Scalar principle
    - Clear & unbroken line of authority that extends from lowest to highest position in organisation
- Span of management
  - # subordinates who report directly to a manager
  - Narrow span: tall organisational structure – managers under utilised
  - Factors influencing span of control:
    - Skills, competence & maturity of supervisor & subordinate
    - Physical dispersion of subordinates
    - Complexity of business
    - Extent of non-supervisory work
    - Degree of required interaction
    - Extent of standardised procedures
    - Similarity of tasks
    - Frequency of new problems
    - Preference of supervisor and subordinates

### 7.4.4. Responsibility & authority

- Establish authority relationships
- Responsibility
  - Obligation to carry out a task
- Authority
  - Right to give instructions & deploy resources
  - Formal authority
    - Vested in organisational positions
    - Accepted by subordinates
    - Flows down vertical hierarchy of organisation
  - Type of relations
    - Line authority
      - Right to issue instructions to immediate subordinates
    - Staff authority
      - Giving advice without the authority to compel people to follow it
    - Functional authority
      - Direct authority in own function in another department

Delegation

- Process of systematically delegating power & authority throughout the organisation to middle and lower level managers.
  - Centralised v Decentralised
    - Level at which decisions are made

#### 7.4.5. Co-ordination

- Establish co-ordinating mechanisms
- Synthesis of separate parts into a unity – binding factor in managerial process
- Integrate goals & tasks at all levels
- Mechanisms
  - Organisational chart
  - Budget
  - Policy & procedures

### 7.5. Factors influencing organising & organisational design

*LO5: Explain how an organisation evolves from a single entrepreneur organisation into a large organisation.*

*LO6: Identify and explain the factors that influence organisational design*

- Environment in which business operates
  - Stable environment
    - Generally functional structure
      - Little or no innovation
      - No great need for co-ordination
    - Decision making at top level
  - Turbulent environment
    - Change is the norm
    - Departmentalisation based on product
      - Speeds up decision making
  - Technologically dominated environment
    - Technologically complex firms – more managers & levels of management because of specialised technicians
    - Adaptable organisational structure with departmentalisation
- Relationship between strategy & structure
  - Structure should follow strategy
- Size of business
  - Increase in size – greater specialisation & departmentalisation
- Staff employed by the business
  - Competence & role
  - Personal preference
- Organisational culture
  - Beliefs & values shared by people in the business
  - Corporate culture: basic values
    - Not limited to behaviour
    - Architecture, décor, dress regulations & general way things are done

## 8. Leading

### 8.1. Key concepts

*Nature of leadership, leadership characteristics, leadership, authority, leadership models, Maslow's theory, components of leadership task, factors influencing power, motivation, kinds of groups, communication.*

### 8.2. Nature of leadership

*LO1: Analyse leadership as a management task by:*

- *Explaining the meaning of leadership, authority, power, influence, delegation, responsibility and motivation*
- *Differentiating between leadership and management.*

#### Leadership

- Influencing & directing behaviour of subordinates in such a way that
  - Influencing: communicate ideas, gain acceptance & inspire followers to support & implement idea (relationship)
- They willingly strive to accomplish goals/objectives of organisation

Leaders	Managers
Lead & direct	Plan, organise & control
Create & articulate vision & change	Implement vision, change & policy
Innovate	Administer
Develop	Maintain
Inspire	Control
Do the right things	Do things right

### 8.3. Components of the leading function

#### 8.3.1. Authority

- Right to give commands & demand actions from employees
- Formal authority – linked to position
- Informal authority – acceptance by subordinates

#### 8.3.2. Power

- Manager's ability to **influence** employee behaviour
- Position power (chain of command)
  - Coersive power
    - Enforce compliance through fear
    - Psychological, emotional or physical

- Fear of retrenchment or exclusion
  - Reward power
    - Manager's ability to influence employees with something of value to them
    - Power to give or withhold rewards
    - Salary, bonus, praise, recognition, allocation of interesting assignments.
  - Legitimate power
    - Power organisation grant to particular position
- Personal power (followers bestow on person)
  - Referent power
    - Manager's personal power/ charisma
    - Employees obey: like , respect & identify with manager
    - Leader's personal characteristics makes him/her attractive
  - Expert power
    - Power given by manager's expertise, knowledge & professional ability over those who need knowledge or information

### 8.3.3. Responsibility

- Obligation to achieve organisational goals by performing required activities

### 8.3.4. Delegation

- Process of assigning responsibility & authority for achieving organisational goals

### 8.3.5. Accountability

- Evaluation of how well individuals meet their responsibilities.

## 8.4. Leadership theories

*LO2: Discuss basic leadership models by referring to the factors influencing effective leadership.*

### 8.4.1. Trait theory

- Suggests certain leadership characteristics are common to all successful leaders
- In practice, traits differ significantly

### 8.4.2. Behavioural theory

- Assume that successful leaders behave differently from unsuccessful leaders
  - Results varied to much
- Researchers looked at:
  - How they delegate to , communicate with & motivate employees
- Leadership styles
  - University of Iowa
    - Autocratic
    - Democratic: involves employees in decision making & delegation
    - Laissez-faire : leave all decisions to employees & no follow-up
  - Ohio State University
    - Initiating structure: leader defines and structure roles

- Consideration: Extent relationships characterised by mutual trust, respect & regard for feelings
- University of Michigan
  - Production-orientated leaders: emphasise technical or task aspects of job
  - Employee-orientated leaders: emphasise interpersonal relationships
- Blake & Mouton : Managerial Grid
  - Identifies various leadership styles on 2 dimensional grid (1-9)
  - Concern for people
  - Concern for production
  - Ideally 'team management style'

### 8.4.3. Contingency (situational) theory

- Attempt to determine the best leadership style for given situation
- Researchers consider the following variables:
  - How structured is the task?
  - Quality of relationship between leader & employees
  - Leader's power position
  - Employee's role clarity
  - Employee's acceptance of leader's decisions
- Fred Friedler: Contingency theory of leadership
  - Effective group performance: proper match between
    - leader's style & interaction with employees and
    - degree to which situation gives control & influence to leader
  - Leadership style fixed: change leader or situation
- Robert House
  - Path-Goal model
  - Leader is responsible to help employees achieve their goals
  - Provide direction & support
  - Leadership behaviours
    - Directive
    - Supportive
    - Participative
    - Achievement-orientated
- Paul Hersey & Ken Blanchard: Situational Leadership Model
  - Employee work maturity determines best leadership style for particular situation
  - Employee work maturity determined by:
    - Need for achievement
    - Willingness to accept responsibility
    - Task-related ability
    - Experience
  - Leadership styles
    - Telling

- Selling
- Participating
- Delegating

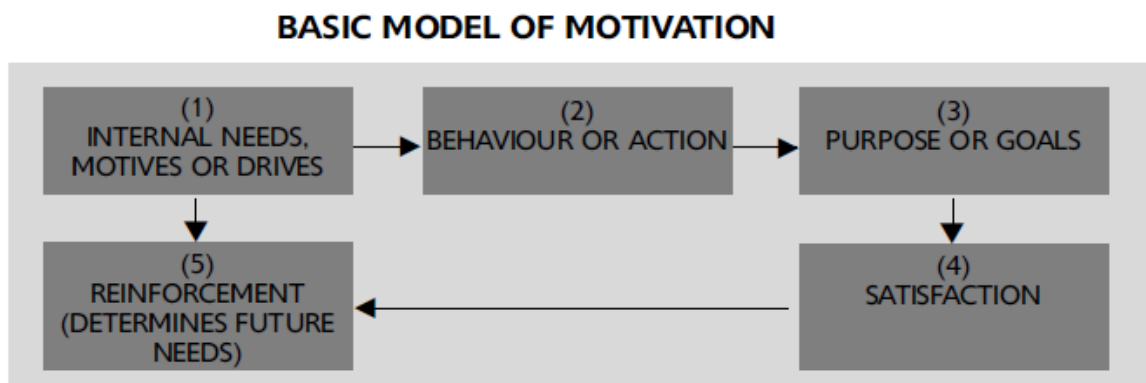
## 8.5. Motivation

*LO3: Demonstrate an understanding of motivation as a key role of a leader by describing the fundamental model of motivation.*

### 8.5.1. Basic model of motivation

Motivation = inner desire to satisfy and unsatisfied need.

Performance = ability x motivation x resources



### 8.5.2. Maslow's hierarchy of needs

Assume person attempts to satisfy basic needs before progressing to higher needs and people strive to move up the hierarchy. Specific need no longer motivates once satisfied. Unsatisfied needs cause stress, frustration & conflict

Oversimplifies matters.

Hierarchy:

- Physiological needs
  - Basic ingredients for survival & biological functioning
  - Air, food, water, sex.
  - Satisfy need: salary, rest rooms, heating etc.
- Security (safety) needs
  - Protection from physical & emotional harm
  - Clothing, job security, employee-assistance programmes
- Social needs
  - Affiliation needs
  - Friendship, love.
- Esteem needs
  - Need for positive self-image & self-respect
  - Recognition from others
  - Satisfy: compliments, access to information, job title, challenging job assignments

- Self-actualisation needs
  - Realising potential through growth & development
  - Development opportunities, challenging assignments, decision making opportunities

### 8.5.3. Alderfer's ERG theory

- 3 core needs (not rigid hierarchy)
  - Existence
    - Person's basic material existence needs
    - Correspond with Maslow's physiological & security needs
  - Relatedness
    - Person's desire for interpersonal relationships & interaction
    - Correspond with Maslow's social needs
  - Growth
    - Person's desire to make a creative or productive contribution
    - Correspond to Maslow's esteem & self-actualisation needs.

### 8.5.4. Herzberg's 2 factor theory & job enrichment

- Maintenance (hygiene) factors
  - No motivational
  - Absence have negative effect on employee moral
  - Aspects considered to be essential to do job, e.g.
    - Organisational policy, equipment, salary & work security
- Motivational factors
  - Growth factors
  - Focused on content of job
  - Benefits over and above normal job to be done
  - Recognition, achievement, progress, growth.
  - Internal
    - Intrinsic – satisfaction of job well done
  - External
    - Action taken by 3<sup>rd</sup> party – reward, e.g. bonus or increase

### 8.5.5. McClelland's theory of needs

- Needs are learnt & reinforced
- 3 Main needs, i.e.
  - Need for achievement (nAch)
  - Need for power (nPow)
    - Need to be influential & control others
  - Need for affiliation (nAff)
    - Need for warm and close interpersonal relationships
    - To be liked and accepted by others

## 8.6. Groups and teams

*LO5: Discuss groups in the organisation by referring to:*

- *The reasons why groups are formed,*
- *The kinds of groups, and*
- *The characteristics of groups.*

*LO6: Differentiate between groups and teams in the organisation.*

Group= 2 or more individuals who regularly interact with each other & work for common purpose

- People join groups for various reason, including social needs, self-worth, power
- Share information & make decisions
- Neutral or negative synergy
- Individuals are accountable for own performance & rewarded for it.
- Informal groups
  - Interest groups – share common interest
  - Friendship group – satisfy social needs
- Formal groups
  - Command groups
    - Organisation chart – line of authority
  - Task groups
    - Created to complete specific task or project
- Characteristics of group
  - Group size – social loafing
  - Group composition
  - Group norms – standards shared by group
  - Group cohesiveness – unity
  - Status: formal or informal

Teams

- Small number of employees with complimentary competencies
- Work together on project & committed to common purpose
- Accountable for performing tasks achieving organisational goals
  - Individually & mutually
- Team perform collectively & members are dependent on each other
- Positive synergy
- Types
  - Problem-solving
    - Same department discuss improving quality, efficiency & work environment
  - Self-managed
    - Take on responsibilities of former managers
  - Cross-functional
    - Same hierarchical level, different work areas
- High performance characteristics
  - Clear understanding of team's goals, technical skills & abilities needed



- Members capable of adjusting their skills
- Mutual trust & unified commitment
- Good communication & adequate negotiating skills
- Team leaders encourage team members by clarifying goals & help members to realise their potential
- Appropriate when:
  - Clear, engaging reason or purpose
  - People must work together to get work done
  - Organisation rewards teamwork & team performance
  - Ample resources available
  - Teams have clear authority to manage & change work they are doing
- Not appropriate if:
  - People working independently can do the work
  - Organisation rewards individual efforts & performance
  - Management continue to monitor & influence work

## 8.7. Communication

*LO4: Describe a simple communication model.*



Transfer of information from one person to another

- Sender
  - Source of message
  - Know exactly what message is – choice of words
- Message
  - Ideas, opinions, plans, orders or explanations
  - Simple & clear
- Channel
  - Manner in which message reaches receiver
  - Spoken language, written word, gestures
- Receiver
  - Absorb message & show that message was received & understood
  - Listening skills
- Encourage feedback

Prerequisites for effective communication

- Sender must determine whether message was correctly interpreted

- Employees (receivers) must be able to grasp the concept the sender wishes to convey
- Communication channel must suit employees
- Message must be interpreted correctly by employees

## 9. Controlling the management process

### 9.1. Key concepts

<i>Task of control</i>	<i>Control process</i>	<i>Standards</i>
<i>Control of physical resources</i>	<i>Quantity control</i>	<i>Material requirements planning</i>
<i>Just-in-time system (JIT)</i>	<i>Budgets quality control</i>	<i>Accuracy</i>
<i>Unnecessary</i>	<i>Flexibility</i>	<i>Timeliness</i>
<i>Deviation</i>	<i>Corrective action</i>	<i>Focus of control</i>
<i>Economic order</i>	<i>Financial resources</i>	<i>Information resources</i>
<i>Characteristics of a control system</i>	<i>Complexity</i>	<i>Actual performance</i>
<i>Inventory</i>		

### 9.2. Introduction to control

- Narrow gap between planned and actual achievement
- Was organisational goals met?
- If not, which corrective action needs to be taken?
- Used to ensure that organisation's goals & objectives are met and resources are used as productively & effectively as possible.

### 9.3. Purpose of control

*LO1: Analyse control as a management task by:*

- *Explaining the task of control and its purpose,*
  - Without control, effective planning cannot take place
  - Enable companies to adapt to environmental change & cope with uncertainty
  - Limit accumulation of errors due to poor decision making
  - Minimise cost & increases output
  - Identify areas of weak performance
  - Identify problems before becoming critical
  - Determine whether delegated tasks were carried out satisfactory
  - Results in better quality
  - Identify resources being wasted or misapplied
- *Describing how a control process should function.*

### 9.4. Control process

*LO2: Illustrate how the task of control forms an integral part of the planning process.*

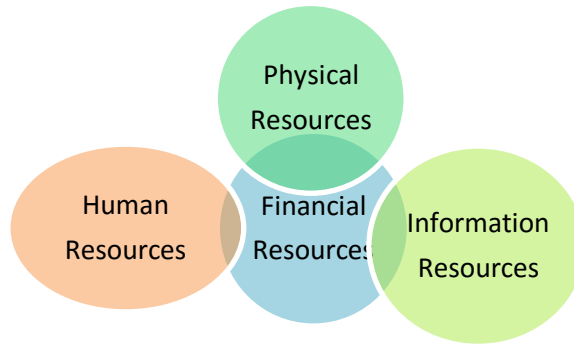
*LO5: Describe how the control process provides feedback for the revision of planning.*

The control process consists of the following 4 steps:

- Setting standards that are derived from goals
  - Close link to planning stage where goals & objectives are determined
  - Performance/control standard = planned target against which actual performance will be compared
    - Relevant, realistic, attainable and measurable
    - Profit, market-share, productivity & staff-development standards
  - Function of goals set in planning stage
  - Enable management to distinguish between acceptable & unacceptable performance
- Measuring actual performance
  - Collect information & reporting on actual performance – continuous
  - Quantifiable
  - Reliable
  - Important considerations in measurement & reporting
    - What information
    - How much information
    - To whom?
  - Control by exception
  - Timing
- Evaluating deviations
  - Identify deviations as well as reasons for deviations
  - Determine performance gap between planned & actual performance
  - Identify cause for gaps
    - Ensure disparities are genuine (planned & actual performance measured objectively)
    - Are deviations large enough to justify further investigation?
    - Identify all reasons & activities responsible for deviation
- Taking corrective action & rectifying deviations
  - Determine if corrective action is required
  - Possible actions
    - Improve actual performance to meet the standards
    - Revise strategy to meet standards
    - Lower/raise performance standards to make it more realistic in prevailing conditions

## 9.5. Types of control

*LO3: Explain the various types of control*



### 9.5.1. Physical resources

- Inventory
  - Raw materials, Work-in-progress (WIP), Components, Finished goods
  - Economic order quality (EOQ)
    - Replenish inventory levels by ordering most economic quantity
    - Does not take demand into account
    - Increased holding costs, e.g. storage
  - Materials requirement planning (MRP)
    - Estimate demand for raw material and order accordingly
  - Just in time (JIT)
    - Order raw material & components based on actual orders received
    - Order more often in smaller quantities
- Quality
  - Total quality management (TQM)
    - Everyone in organisation is responsible for quality
    - Continuously improve work systems, products & services
    - Strategic commitment, ultimate test in market

### 9.5.2. Financial resources

- Budget – allocation of financial resources
  - Resources flowing into organisation (income, return on investment)
  - Resources held by organisation (working capital, cash)
  - Resources flowing out of organisation (capital expenditure & expenses)
  - Contribution of budget
    - Support co-ordination of resources, departments & projects
    - Provide guidelines on application of organisation's resources
    - Defines standards for control & makes evaluation of resource allocation possible.
  - Types
    - Financial
      - Focus on cash flow and capital expenditure
      - E.g. cash-flow budget & capital budget
    - Operational
      - Revenue and operational aspects of organisation

- E.g. sales budget & contract budgets
- Non-financial
  - Focus on diverse aspects of organisation that are not expressed in financial terms
  - Production budget in units
  - Sales volumes in units
  - Time projections of projects
- Financial analysis (ratio analysis)

### 9.5.3. Information resources

- Need accurate & timely information
- Fast feedback

### 9.5.4. Human resources

- Ratios, e.g. absenteeism, labour turnover, composition of work force
- Performance appraisal
- Informal controls- group norms

## 9.6. Characteristics of an effective control system

*LO4: Discuss the characteristics of an effective control system.*

- Integration
  - Integrate with planning – formulate goals in manner it can be converted to control standards (quantifiable)
- Flexibility
  - Accommodate change – timeous adjustments
- Accuracy
  - Objective and accurate picture of situation
  - Not conceal errors & deviations
- Timeliness
  - Regular as needed
  - Not hasty makeshift measurement
- Simplicity
  - Cost-benefit analysis
  - Not over-simplified