MANAGEMENT FUNCTIONS:				
Function	**PLANNING**	**ORGANISING**	**LEADING**	**CONTROL**
Description	Determine mission & goals of business & how to reach them in long term, resources required & the guidelines/ plans to get there	Human/financial & physical resources must be allocated to relevant management departments. Duties must be defined, procedures fixed to enable its people to work effectively to reach its mission & goals	Directing & motivating human resources. Collaborate with superiors, equals and subordinates to reach goals of business Ability to influence workforce to attaining organisation goals. NB influence, share purpose & organisational change	Determine if business is still on track – activities and performances in line with reaching company goals. If deviations detected to correct them or reconsider its goals/plans a) Coordinating mechanism that links planning & control process in an organisation b) Ensures business's resources deployed in such a way to attain its objectives c) Results in better quality & enable management to cope with environmental chance & uncertainty d) Control measures reduce costs & boost outputs e) Facilitates delegation & teamwork
Principles	Provides direction & forward thinking Participation within work environment Reduces impact of change & overlapping of activities Sets standards for control	Unity of command/ direction Chain of command & span of control Standardisation/ Co-ordination • Identification of activities • Classification of grouping of activities • Assignment of duties • Delegation of authority • Coordinating authority and responsibility relationships	• **Supervision** Act of watching & directing work & workers • **Motivation** Inspiring, stimulating or encouraging sub-ordinates with zeal to work (incentives may be used) *i. Content theories of motivation* Maslow Needs Hierarchy Herzberg Two-factor motivation McCleland Achievement Motivation *ii. Process Theory* Expectancy theory Equity Theory Reinforcement Theory • **Leadership** Process whereby manager guides & influences the work of subordinates in desired direction • **Communication** Passing info, experience, opinion = bridge of understanding i. Intra-personal ii. Interpersonal iii. organisational	**Control Process** 1) Establish performance standards 2) Measurement of actual performance 3) Comparison of actual performance with standards and finding out deviation if any 4) Corrective action

	Strategic – long term, business overall planning by top management (p 53) **Tactical** – medium-term objectives, more specific than strategic set by senior/middle/line managers **Operational** – short term planning by first-line managers	Authority: right to make decisions, issue orders and use resources = formal & informal authority line and staff authority centralised and decentralised authority	**Leadership Models:** • Leadership trait or characteristics model • Behavioural approach ○ Autocratic/task oriented leaders ○ Democratic/ employee oriented ○ Theory X leaders ○ Theory Y leaders • Situation/ contingency approach ○ Fiedler's contingency theory ○ Hersey & Blanchard's contingency theory ○ Path-goal theory ○ Substitutes for leadership • Contemporary approach • Transactional leadership • Charismatic/ visionary • Transformational	Levels of Control i. **Strategic control** ii. **Tactical/ functional control** ○ Financial control ○ Human resources ○ Physical resources ○ information iii. **Operational control** ○ Preliminary control ○ Concurrent control ○ Rework control ○ Damage control ○ Feedback
		Organisational design/structure: formal arrangement of positions into work units or departments and their interrelationship within a business **e.g. Departmentalisation:** Functional / Product/ Location/ Customer/ Multiple/ Divisional/ Network structures/ New venture units/ Virtual Network Structure/ Team Concept	**Powers a manager can have:** ◆ Legitimate ◆ Reward ◆ Coercive ◆ Referent ◆ Expert	
			Leadership vs. management (p65)	

FINANCIAL MANAGEMENT RATIOS

Liquidity Ratio

Used to assess liquidity position of business

i.e. shows solvency of a company based on assets vs. liabilities

CURRENT RATIO

Current Ratio = $\frac{\textbf{current assets}}{\textbf{current liabilities}}$ *$\frac{CA}{CL}$*

= x,zy:1

Therefore if = 1,42:1 then you have R1,42 for every R1 owed.

Therefore CR indicates if business has the liquidity to meet its obligation in short term i.e. can business pay what it owes?

Norm for CR = 2:1 i.e. business must have R2 for every R1 it owes. Low CR means the business will struggle to meet monthly expenses.

Low CR resulted by:

- Too many creditors
- Cash flow problems
- Large bank overdraft

Can be improved by paying off creditors faster & putting sufficient profit back into business

ACID TEST RATIO

Acid Test Ratio = $\frac{\textbf{CA – inventory}}{\textbf{CL}}$ *$\frac{CA-I}{CL}$*

=x,yz:1

Due to inventory sold on credit = debtors, therefore takes loner to divert to instant cash hence ATR excludes inventory to assess ability to meet short-term obligations regularly & on time.

Norm for ART = 1:1 i.e. business must have R1 for every R1 short term debt it has

Low ART resulted by:

- Too much inventory
- Lack of sufficient cash resources
- Too many debtors (who have already settled their accounts)

Activity Ratio

Indicates effectiveness of asset usage to realise sales

INVENTORY TURN OVER RATE (BS & IS)

ITOR = $\frac{\textbf{cost of sales (cost price of sales)}}{\textbf{average inventory}}$ *year X + year Z÷2*

=x,yz (times to realise sales per year)

i.e. to realise projected sales during year the inventory must 'turn around' x,yz times

Low turnover rate means:

- Wrong type of inventory
- Inventory is obsolete / damaged
- Too much inventory
- Pricing may be to high

DEBTORS COLLECTION PERIOD (BS & IS)

DCP = $\frac{\textbf{average debtors x 360}}{\textbf{credit sales}}$ *(year X + year Z) x 260 ÷2*

= x days (an average for business to collect from debtors)

Therefore credit period business grants with credit sales can be used as guideline/norm in assessing of debtors collection period.

CREDITORS PAYMENT PERIOD

CPP = $\frac{\textbf{average creditors x 360}}{\textbf{credit purchases}}$

= x days

Therefore x days elapse before business pays its creditors. Show how regularly you pay your creditors. Favourable CPP has +ve effect on credit.

If CPP is shorter than normal cr4edit period granted can be viewed in bad light that business might be pressured to pay earlier due to history of late payment.

If CPP is shorter viewed with cash flow of business & debtors collection period, if business pays sooner could ask for discount from creditors

Solvency Ratios

Shows chances of business going bankrupt

Ability of business to pay all its debts at any time. Total liability must be covered by total assets

DEBT RATIO

DR = $\frac{\textbf{total assets}}{\textbf{total liabilities}}$

= x,yz:1

Business has therefore Rx,yz assets for every R1 of liabilities / debt.

If ratio reaches 1:1 or less means business is insolvent. If debt ratio too high means business totally owned by external capital suppliers who could liquidate business at any time.

INTEREST COVERAGE RATIO

ICR = $\frac{\textbf{income before interest \& tax}}{\textbf{interest commitments for year}}$

= xyz times

Credit supplier can review if business can meet its interest commitments.
Indicates number of times a business can pay its interest commitments for the year from its income before interest & tax.
i.e. business can cover its interest xyz times out of its net income before interest & tax (does not tell us if business has the cash to make payments)

Profitability Ratios

Shows how profitably the available capital has been employed in the activities of the business

PROFITABILITY OF ENTERPRISE

(return on total assets) *x 100 to get a %*

PE = $\frac{\textbf{net income before interest \& tax x100}}{\textbf{total assets}}$

=xyz%

Return business earns on capital invested (borrowed & own) must reflect goals of business.
Profitability must:

- Exceed inflation rate
- Be higher than alternative investments (e.g. fixed deposits/ unit trusts)
- Be higher than interest rates (costs of borrowed capital)

i.e. it must be worthwhile for owner/stakeholders to invest the capital.

PROFITABILITY OF OWN CAPITAL

POC = $\frac{\textbf{net income after interest \& before tax x100}}{\textbf{own capital (owner's/ member's invest)}}$

= xyz%

Comparing profitability of own capital with returns from other forms of investments is good indication if business will succeed.

Profitability can also be expressed in terms of sales

GROSS INCOME MARGIN

GIM = $\frac{\textbf{gross income x 100}}{\textbf{sales}}$ *Sales for the year – cost of sales*

= xyz%