



Introduction to Business
Management
C_COBU211

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Introduction

Welcome to Introduction to Business Management. The main sources of information for the module are a prescribed e-book and a Study Guide. The Study Guide should **not** be seen as a replacement for the prescribed e-book. You must use it in conjunction with the e-book, which contains the actual learning content of the module. You are expected to work independently through the relevant sections of the e-book. The Study Guide facilitates this process by means of references to relevant sections in the e-book.

In this introductory unit, we provide you with the following information on Introduction to Business Management:

- A brief description of the module
- The learning outcomes and assessment criteria involved in the module
- An outline of the module structure
- An explanation of the purpose, design and the proper use of the Study Guide and the e-book

Module aim

The primary aim of Business Management is to introduce students to the fundamentals of business and key management practices in organisations and business enterprises. The concept of business management refers to the activities that a manager needs to undertake to operate a business enterprise successfully. The module provides students with essential information and skills to understand and engage in management activities and business.

Module description

Modern businesses are facing numerous challenges, ranging from globalisation of the marketplace to intense competition, the digitisation of technologies and complex regulatory environments. Managers have to strive to maximise profits, in order to keep shareholders happy, while, at the same time, considering the long-term interests of the company, so as to ensure positive future survival prospects. There are also external stakeholders, such as communities and regulatory bodies in government, which need to be satisfied with the policies and practices of the firm.

This module, which prepares the student for other modules, introduces business processes and functional areas in the business to familiarise the student with the operational dimensions for which managers are responsible. The core elements of a business are: marketing of products and services; financing operations and expansion; appointing suitable members of staff and producing what the market wants.

The tasks, roles and responsibilities of managers will receive attention, which will enhance an understanding of management in the generic sense of the concept – i.e. also in non-business organisations – with the focus on the management of business enterprises. These essential management tasks include the planning the allocation of resources, organising people to perform work, leading and motivating staff, quality control and performance control.

A range of issues and challenges faced by managers also form part of the content of Introduction to Business Management. Day-to-day operational issues – such as communication, government regulatory compliance, improving the quality of products and services – are key concerns of all managers. From a management perspective, other important issues include: managing growth, formulating and conveying the business vision to fellow managers and to employees, training, maintaining, motivating and retaining employees, managing customer services and customer relationships, reducing operational costs and communicating with suppliers.

A shortage of key people in a business means that individual employees have numerous responsibilities and they are expected to handle a wide spectrum of functions for which they may not have the required expertise or time. Time management then becomes a critical factor of day-to-day business operations.

The module also highlights the situation in small enterprises. The major issue affecting small businesses, in particular, is that of limited resources such as finance, people and time. Small businesses also face other challenges such as a shortage of capital or overworked managers and owners.

Learning outcomes and assessment criteria

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

1. Distinguish between various business types and ownership forms and explain the way in which these link with the business purpose
2. Discuss the theory and practice of management comprehensively
3. Discuss management functions and tasks and the application of these in a business
4. Analyse the main functional areas of business
5. Assess contemporary aspects of governance and compliance in the management of a business

The following table outlines the assessment criteria that are aligned to the learning outcomes.

Summary of learning outcomes and assessment criteria

Learning outcomes	Assessment criteria for pass
On successful completion of this module, the student will be able to:	The student can:
1. Distinguish between various business types and ownership forms and the way in which these link with the business purpose	1.1 Identify the various types of organisations and businesses, the forms of ownership and stakeholders 1.2 Explain the organisational purposes of business 1.3 Define entrepreneurship and the business mindset 1.4 Differentiate between corporations and small businesses 1.5 Explain the responsibilities of a business
2. Discuss the theory and practice of management comprehensively	2.1 Outline the main historical developments of management 2.2 Explain the fundamentals of the theory and practice of management 2.3 Discuss organisational behaviour as a factor in management 2.4 Identify the competencies, roles, skills and levels of line and staff managers in an organisation 2.5 Discuss the challenges associated with becoming a manager
3. Discuss management functions and tasks and the application of these in a business	3.1 Explain the interrelationship between the generic functions of management and organisational strategy 3.2 Discuss the nature of planning in an organisation and its application in a business 3.3 Discuss the organising and controlling tasks of management and their application in business operations 3.4 Explore the task of leading in an organisation and evaluate its place in a business
4. Analyse the main functional areas of business	4.1 Differentiate between production, services and knowledge-based businesses and/or organisations 4.2 Analyse different business environments 4.3 Explain the interrelationship between the main functions in a business such as production, finance, marketing and human resource management, and support functions 4.4 Discuss the concepts and nature of core business, operations and strategic management
5. Assess contemporary aspects of governance and compliance in the management of a business	5.1 Describe the regulatory environment, and the concepts of good governance and compliance 5.2 Explain the contemporary issues of sustainability and the ecological environment

	and their impact on management and business
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These outcomes are covered in the module content and they are assessed in the form of written or oral assignments and/or tests and in the examination, as well as a range of self-assessment questions and exercises at the end of every unit. If you comply with and achieve all the pass criteria that are related to the outcomes, you will pass this module.

Information resources

You should have access to a resource centre with a wide range of relevant resources. Resources can include newspaper articles, journals, organisational publications, etc. You are encouraged to read news media daily to improve your knowledge of everyday business matters.

Prescribed e-book

The prescribed e-book for Introduction to Business Managements:

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Cape Town: Pearson SA.

Recommended information sources

Bovée, C.L. & Thill, J.V. 2013. *Business in action*. 6th edition. Upper Saddle River, N.J.: Prentice Hall.

Du Toit, G.S.; Erasmus, B.J. & Strydom, J.W. 2010. *Introduction to Business Management*. 8th edition. Cape Town: Oxford University Press Southern Africa.

International journal of business and management. Canadian Center of Science and Education. [Online] Available at:
<http://www.ccsenet.org/journal/index.php/ijbm/index>

Sloman, J. & Jones, E. 2011. *Economics and the business environment*. 3rd edition. Harlow: Financial Times Prentice Hall.

Using the Study Guide

As indicated earlier, the e-book is your main source of information for Introduction to Business Management and the Study Guide serves as a guide to the prescribed e-book.

At the start of every unit in the Study Guide, there are specific **assessment criteria** listed, which form the focus of the unit. You should pay careful attention to these assessment criteria, as you study each unit.

There are also **learning objectives** listed in every chapter in the prescribed e-book. These give an indication of the scope of the chapter. They will assist you to read with purpose and to undertake the self-assessment questions at the end of the unit and those in the e-book. This is a good way to reinforce learning and to prepare for assessments.

In the Study Guide, references to 'chapter' and 'section' always refer to the prescribed e-book, while 'unit' refers to the parts of the Study Guide.

Structure

The Study Guide is structured as follows:

Unit 1	The nature of organisations and business
Unit 2	Entrepreneurship and small business
Unit 3	The nature of management
Unit 4	Roles and qualities of managers
Unit 5	Management tasks; planning
Unit 6	Management tasks; organising and controlling
Unit 7	Management tasks; leading
Unit 8	Dimensions and environments of business
Unit 9	Functions of business
Unit 10	Governance, compliance and sustainability

Glossary

Please refer to the Glossary at the end of the Study Guide in order to familiarise yourself with the exact meaning of all the concepts and terms used in the subject field of business management.

Individual units

The individual units in the Study Guide are structured in the same way. Each unit contains the following features, which should enhance the learning process:

- Unit title:** Each unit title is based on the title and content of the specific outcome or the assessment criterion/criteria discussed in the unit.
- Learning outcomes:** The unit title is followed by an outline of the learning outcomes and assessment criteria, which guide the learning process and indicate what you should be able to do once the unit has been studied. It is important for you to become familiar with the learning outcomes because they represent the product of what should have been learned in the unit.
- Introduction:** The learning outcomes are followed by an introduction that identifies key concepts of the unit.
- Content:** The content of each unit, which contains the theoretical foundation of the module, is based on the work of experts in the field of human resource management. The theory is illustrated by means of relevant examples.
- Concluding remarks:** The concluding remarks at the end of each unit provide a brief summary of the unit as well as an indication of what the student can expect in the following unit.
- Self-assessment:** The content is followed by a number of theoretical self-assessment questions that test your knowledge of the content of a particular unit. The self-assessment questions also give you an indication of questions that may be expected in the tests and in the examination in Introduction to Business Management.

The use of icons

Icons are used to indicate particular sections or points in the Study Guide; to draw the student's attention to important aspects of the work or to highlight activities. The following icons are used in the Study Guide:



Learning outcome alignment

This icon is used to indicate how individual units in the Study Guide are aligned to a specific outcome and its assessment criteria.



Prescribed reading

This icon indicates reference to relevant sections in the prescribed e-book that you are expected to study.



Definitions

This icon appears when definitions of a particular term or concept are given in the text.



Example

The Example icon points to a section in the text, in which relevant examples for a particular topic (theme) or concept are provided.



Test your knowledge

This icon appears at the end of each unit in the Study Guide, indicating that you are required to answer self-assessment questions to test your knowledge of the content of the foregoing unit.



Useful website(s)

This icon appears, when you are referred to a particular website(s), which you should consult for more information.



Internal reference

This icon is used when the student is referred to a specific section or page within the Study Guide.



Activity

This icon indicates learning activities/exercises that have to be completed, whether individually or in groups, in order to assess (evaluate) your understanding of the content of a particular section.



Supplementary reading

This icon indicates that you are expected to do some additional (supplementary reading) – i.e. you should obtain additional information by consulting relevant, external information sources.

Alignment to prescribed e-book

The following table reflects the alignment between learning outcomes, assessment criteria, units in the Study Guide and chapters in the prescribed e-book.

Study Guide and prescribed e-book alignment

Learning outcome	Assessment criteria	Unit in Study Guide	Chapter in e-book
1. Distinguish between various business types and ownership forms and explain the way in which these link with the business purpose	1.1 Identify the various types of organisations and businesses, the forms of ownership and stakeholders	Unit 1	Chapters 1 and 2
	1.2 Explain the organisational purposes of business	Unit 1	Chapters 1 and 2
	1.3 Define entrepreneurship and the business mindset	Unit 2	Chapter 2
	1.4 Differentiate between corporations and small businesses	Unit 2	Chapter 2
	1.5 Explain the responsibilities of business	Unit 1	Chapters 1 and 2
2. Discuss the theory and practice of management comprehensively	2.1 Outline the main historical developments of management	Unit 3	Chapters 4 and 5
	2.2 Explain the fundamentals of the theory and practice of management		
	2.3 Discuss organisational behaviour as a factor in management		
	2.4 Identify the competencies, roles, skills and levels of line and staff managers in an organisation	Unit 4	Chapters 4 and 6
	2.5 Discuss the challenges associated with becoming a manager		
3. Discuss management functions and tasks and the application of these in a business	3.1 Explain the interrelationship between the generic functions of management and organisational strategy	Unit 5	Chapter 7
	3.2 Discuss the nature of planning in an organisation and its application in a business		
	3.3 Discuss the organising and controlling tasks of management and their application in business operations	Unit 6	Chapters 8 and 10

	3.4 Explore the task of leading in an organisation and evaluate its place in a business	Unit 7	Chapter 9
4. Analyse the main functional areas of business	4.1 Differentiate between production, services and knowledge-based businesses and/or organisations	Unit 8	Chapter 1, 3 and 15
	4.2 Analyse different business environments		
	4.3 Explain the interrelationship between the main functions in a business such as production, finance, marketing and human resource management, and support functions	Unit 9	Chapters 11–15
	4.4 Discuss the concepts and nature of core business, operations and strategic management		
5. Assess contemporary aspects of governance and compliance in the management of a business	5.1 Describe the regulatory environment, and the concepts of good governance and compliance	Unit 10	Chapters 2 and 4
	5.2 Explain the contemporary issues of sustainability and the ecological environment and their impact on management and business		

Concluding remarks

At this point, you should be familiar with the module design and structure as well as the use of the prescribed e-book in conjunction with the Study Guide. In Unit 1, we start with the module content by exploring the nature of organisations and business.



A series of 22 horizontal black lines spanning the width of the page, intended for handwritten notes.

Unit 1: The nature of organisations and businesses



Unit 1 is aligned with Learning Outcome 1 and Assessment Criteria 1.1, 1.2 and 1.5.

Learning Outcome 1:

Distinguish between various business types and ownership forms and explain the way in which these link with the business purpose

Assessment criteria:

- 1.1 Identify the various types of organisations and businesses and the forms of ownership and stakeholders
- 1.2 Explain the organisational purposes of business
- 1.5 Explain the responsibilities of the business



Prescribed reading

Botha, S. 7 Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 1 and 2.

1.1 Introduction

Organisations form part of the environment in which we live and, in this way, they play an important role in the lives of people and countries. Early in life, we become familiar with schools, community groups, churches, sports groups and shops, and we know that our parents work at organisations. Each of these organisations exists for a specific reason.

Governmental organisations, such as the Department of Education, exist to help the government meet its responsibilities of providing educational services to the public. Provincial authorities and local authorities (municipalities) are also governmental organisations at the second and third tier of government, but they have different purposes at regional and local levels.

Organisations that do not form part of the government sector, i.e. non-governmental organisation (NGOs) may exist for either for business or non-profit reasons. A church and a sports club are not governmental organisations, but they do not exist to make profit from their activities either. However, they may engage in activities to generate money for their operational expenses.

Business organisations are part of the third category, i.e. organisations that exist with the purpose of generating enough profit to ensure their prosperity and survival. However, the distinction is not always that evident. For example, Manchester United is one of the world's most famous soccer clubs. It is, in reality, a business operating in the area of sport, which is traditionally a non-profit activity. This should alert us to the fact that organisations, as entities, are dynamic and can develop and change.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*.
Chapter 1: Section 1.4.

Read Section 1.4 attentively.

1.2 Types of businesses

In the previous section, we explained that a sports club could, in fact, be a business. In this section, the types of businesses will be discussed, which will enable you to understand the nature of their activities and the forms of ownership. These dimensions indicate the people that have an interest in the business, i.e. the **stakeholders**.

A family-operated grocery shop or restaurant in a small town is most likely the property of one owner. However, when we have similar small shops, bakeries and restaurants appearing in several towns, using the same name, the ownership will be different. They may be franchises with different owners or branches of one chain of shops all belonging to one owner.



Example

Doctors often operate as a group with other doctors and they form an organisation called doctors' consultancy rooms or a clinic. In terms of ownership, this is typically a partnership, where they share the ownership in a specific contractual arrangement. When they decide to have a larger clinic where there are possibly some other investors, they may form a company with a limited number of shareholders, e.g. only those who provide money as capital to start the clinic. In future, when they will be happy with the performance of their company, (making profit and providing a good health service), they may decide to start several similar clinics, in different cities. They will need a large amount of capital and, therefore, they will need more shareholders in a new company. By selling shares to the public, they will have many shareholders and will become a public company. They will appoint professional managers and a board of directors to oversee the operations of the new business/clinics.

The foregoing example explains how companies may develop and how they may differ from one other and from partnerships or individual owners of businesses. Expansion and growth mean that the nature and number of stakeholders will change.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 2:

- Section 2.5
- Table 2.3

It is essential to study Section 2.5 attentively, in order to understand the nature of ownership of different businesses. Useful background reading on ownership can be found in the summary in Table 2.3.

This topic is also relevant in the study of accounting and managing financial resources, as there are different accounting obligations for different forms of ownership.

In the next section, we will focus on the purpose of business organisations.

1.3 Organisational purposes of business

One can assume that a business exists to generate income so that the owner can live and prosper. The income generated should be more than the operating expenses of the business: the business must be profitable to survive. In reality, the purpose of the business is not the profit in particular, but the needs and wishes of the owner. Botha and Musengi (2012:3) argue that the needs and wants of people – in this case, the owner – are at the root of business. On the one hand, the owner has needs, wants and desires to satisfy and, on the other hand, he/she can only do business if he/she has a product or service that meets the needs and wants of customers. People have limited resources (i.e. money) to satisfy the multiple needs and wants they have. It means that they have to prioritise their spending on goods and services: food comes before sweaters, but clothes come before holidays.

This dilemma was described by Abraham Maslow as a hierarchy of needs. It means that some needs are immediate and more important than others are.

Prescribed reading



Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 1.

Study Section 1.1 attentively to understand the hierarchy of needs as part of the background to the purpose of business.

We study this topic in more detail in the module on organisational behaviour and it is relevant in the study of marketing.

Du Toit *et al*, (2007:11) describe this as a broader issue with economic relevance. Society tends to have unlimited needs but limited resources. This is the same for all countries. There are scarce resources but many types of needs in a country. The challenge is, therefore, how to allocate and use scarce resources effectively and equitably.

At business level, this is part of the management challenge. To operate a business, goods and services, which satisfy the needs of customers, must be produced. Managing the business means that decisions are made about practical matters such as products, business plans, organising of employees and allocation of resources, budgeting, marketing and priorities in order to meet specific objectives aimed at its survival and prosperity.

In this discussion, it is assumed that the business manager has the freedom to make choices about goods and services to satisfy human needs and wants. It is also assumed that the economic system of the country is a free market economy that allows free choice for the business and the consumer. However, the reality is that countries have varying degrees of economic freedom and market economies. This is part of the study of the economics module, which is outside the scope of Business Management, but highly relevant to managing a business.



Background reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 1:

- Section 1.2 on economic systems
- Table 1.1, which provides a summary of major economic systems

In the next section, we focus on the responsibilities of the business.

1.4 Responsibilities of the business

We have mentioned that businesses have stakeholders with an interest in the enterprise. It follows that the business has different responsibilities towards stakeholders with different interests. Some stakeholders are internal, such as staff and owners, but most stakeholders are external, such as clients, suppliers and regulators. In this section, we will discuss these responsibilities, as well as the general responsibilities of the business.

In the case of manufacturing, mining and agricultural businesses, there typically is an input of resources, which are then transformed or processed by using labour, energy and expertise into outputs such as finished products,

minerals or food. The conversion uses of these factors of production, which can be called an organisational system, have various implications.

There may be air pollution and noise; infrastructure and buildings to be built; water to be used; waste to dispose of and members of the local community may have their lives disrupted in some way. This interaction with the community brings one set of responsibilities.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 1: Section 1.1.2 and 1.1.3.

Study Section 1.1.2 and 1.1.3 on this responsibility towards the community as one type of stakeholder.



The final unit in the Study Guide deals with corporate social responsibilities.

The business also has financial responsibilities towards its suppliers, its lenders for loan repayment, staff for salaries and the government for taxes. There are quality responsibilities towards customers, who have a legitimate expectation to buy quality products, meeting the standards indicated in specifications or in advertisements. In the case of services, customers expect to receive services in accordance with an agreement or contract. There are also legal responsibilities in terms of regulatory compliance; i.e. operating the business in accordance with the law.



Legal responsibilities and regulatory compliance are discussed in Unit 10.

Managers have a range of responsibilities towards stakeholders as much as towards shareholders, to operate the business efficiently and effectively to ensure its success and survival. Shareholders have an expectation of profit, business growth and dividend payments.

This matter is also covered in sections dealing with the business environment and the tasks of management.

Throughout the study of this unit, and of business topics in general, it should be kept in mind that a business has a legitimate expectation to generate revenue and make profit from the use of its capital and efforts, but that these

'rights' must be balanced with the other side of the coin, i.e. complying with duties and responsibilities.

1.5 Concluding remarks

In this unit, we introduced the types of organisations and businesses that can generally be found. The organisational purpose of business, the concepts of wants and needs of customers and the responsibilities of businesses were discussed. Some of the issues and challenges the business manager may come across were introduced, such as the role of stakeholders, the allocation of scarce resources and the use of the factors of production. The concepts and key aspects mentioned in the unit will be explored in more detail in other units.

In the next unit, we will examine small businesses and entrepreneurship in preparation for the study of management and business.



Test your knowledge

1. Explain the relevance of Maslow's hierarchy of needs in the context of the purpose of a business.
2. Explain the interests of two internal and two external stakeholders in a business.
3. Differentiate between revenue and profit.
4. Identify the person liable for tax in a family-owned business.
5. Explain the main differences between private and public companies.
6. Name three types of businesses and explain the differences between them.
7. Describe two main responsibilities of managers towards shareholders.
8. Discuss the key difference between the concepts *business* and *organisation*. Give examples to substantiate your answer.

Unit 2: Entrepreneurship and the small business



Unit 2 is aligned with Learning Outcome 1 and Assessment Criteria 1.3 and 1.4.

Learning Outcome 1:

Distinguish between various business types and ownership forms and explain the way in which these link with the business purpose

Assessment criteria:

- 1.3 Define entrepreneurship and the business mind-set
- 1.4 Differentiate between corporations and small business



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 2.

2.1 Introduction

In this unit, we will discuss entrepreneurship and small businesses. Entrepreneurs, i.e. the people practicing entrepreneurship are typically people with good ideas and a business mindset with the drive to start a new business. They are generally creative and innovative, have a high tolerance for risk and uncertainty and are prepared to work hard. They may fail in the venture and try again. Their small business may be a success and grow to become a medium or large business, or it may operate successfully without significant growth but still satisfy the needs of the entrepreneur.

Although there is an evident link between entrepreneurship and small business, they are not the same concept. For example, an entrepreneur may start a large business with a high capital level and numerous investors operating in a large market and across several countries, e.g. Facebook. A small business may simply be one with a small turnover and few staff that has been in existence for a long time and may have had several owners, who were not entrepreneurs, but merely owners and/or managers.

It is important to understand the nature of both. Many students may be potential entrepreneurs, while others may be employed by small businesses.

The acronym SMME for small, micro and medium-sized enterprises is commonly used, but is not always understood the same way. In developed countries, *small* is often defined as a firm employing between 50 and 500 people while medium can be more than 500 employees. In developing countries, these are already considered businesses of a significant size. The **South African National Small Business Amendment Act 29 of 2004** defines a small business in South African terms (refer to Section 2.2).



Useful website

Search for information on this in developed countries from Organisation for Economic Cooperation and Development (OECD) sources (www.OECD.org).

2.2 The nature of entrepreneurship



*“**Entrepreneurship** can be defined as the process of mobilising and risking resources to utilise a business opportunity or introduce an innovation in such a way that the needs of society for products and services are satisfied, jobs are created and the owner of the business profits from it” (Du Toit et al, 2007:42).*

From the definition, it is clear that we need to understand and study the typical characteristics of the entrepreneur, the types of entrepreneurs, the industries in which they may operate, their relationship with partners or investors, their challenges and why they do what they do.

The motivation of entrepreneurs is complex and not easily described. Some may be driven by the challenge and others by the prospects of individual wealth. A study in the United States revealed that there are a few main reasons why entrepreneurs pursue their own business ideas:

- Small business is an area that represents significant growth, which presents opportunities in areas such as outsourcing and doing business with existing firms with which they are familiar.
- Privatisation of former government agencies creates opportunities for former employees of agencies or government departments with the right skills and knowledge.
- Knowledge, experience and skills in a certain area, possibly linked to job termination, job dissatisfaction or the search for independence lead people to exploit opportunities.

- Traits or psychological variables that distinguish certain people as entrepreneurs, e.g. the wish to be 'in control' of their own destiny, the motivation to achieve something on their own, creativity and the ability to innovate and willingness to take risk (Du Toit *et al*, 2007: 45-48).

Good ideas without opportunities may come to nothing. The challenge for the person with a good idea is to identify or create an opportunity. In addition, some skills are required to start and pursue a new business, some of these are:

- Vision
- Planning and strategising skills
- Sales and marketing skills
- The ability to sell ideas and convince a partner or a bank and obtain finance
- People skills involved in the appointment and motivation of the right staff
- Project management skills and administrative skills to get a project off the ground and to maintain progress



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 5.

Read Section 5.4.5 on entrepreneurial management thinking.

In conclusion, study the dimensions of entrepreneurship carefully before focusing on the small business in the next section.

2.3 Small business

Small businesses worldwide are contributing significantly to the creation of jobs and the Gross Domestic Product (GDP), i.e. the total economic activity in a country. In developed countries such as Japan and Canada, GDP contribution is around 57%, but in the United Kingdom, it is said to be as low as 30%. Brazil, India and South Africa (BRICS developing countries) are 61%, 40% and 25% respectively (Botha & Musengi, 2012: 42).



Task 2.1

1. Study Table 2.4 in Section 2.6 of the prescribed e-book.
2. Search information to compare South Africa to countries, such as Thailand and Poland, which have similarly sized economies, and Korea and Australia, which are more advanced economies.
3. Record your conclusions.

When we consider the nature of a small business, we need to focus on the:

- Description of a small business
- Benefits of owning a small business
- Challenges of owning one
- Approaches to acquiring or starting one
- Steps and procedures involved in starting a small business
- Small business in South Africa and agencies assisting development

From the challenges discussed in Botha and Musengi (2012: 30 & 43), we realise that the lack of access to the **factors of production**, e.g. capital, skilled labour, land, entrepreneurship ideas and knowledge may lead many new small businesses to fail at a rate of between 50% and 80%.

The South African economy has not been able to grow at a rate high enough to absorb population growth and immigration; particularly that of young people leaving tertiary institutions. The lack of formal employment opportunities results in young people having to start their own micro and/or small businesses, in order to become economically active.

NOTE

The information in this module introduces the elementary but key aspects that you need to understand to be able to take the step toward being an entrepreneur or becoming a small business owner.



Useful websites

Consult the following websites for more information on small businesses:

- www.busrep.co.za
- www.nab.co.za or www.iol.co.za
- www.dnb.com
- www.dti.gov.za
- www.seda.co.za

In the next section, we will draw comparisons between small and larger businesses (corporations).

2.4 Corporations and small businesses

The aim of this module is to introduce you to the concepts of business, management and business management. Although you need to understand small businesses and the particular challenges of starting and managing them, the reality is that many of you will be employed by larger business enterprises or large organisations and you may aspire to supervisory positions. We differentiate between the characteristics and management of the different types.



Task 2.2

1. Study the elements in the following comparative table.
2. Explore other options and complete the gaps (in the gray areas).

Table 1 – Differences between small businesses and corporations

Element	Small business	Big business
Capital	<ul style="list-style-type: none"> • Small capital base with limited reserves • Ownership may be an individual or partners who contributed capital 	<ul style="list-style-type: none"> • May have substantial capital • May have reserves built over years • May have many shareholders who contributed capital
Debt	Small debt but significant in terms of ratios	<ul style="list-style-type: none"> • May have high debt requiring a large amount of payment/servicing, but may also be low and insignificant
Staff	Small staff who must be multi-skilled and willing to do more than one type of job	<ul style="list-style-type: none"> • Large staff of whom many may be very specialised and performing a narrow skill-based job
Managers	Owner may be the manager	<ul style="list-style-type: none"> • Managers are hired by the owners (shareholders) and the Board • Directors and by other managers for lower levels
Product or service	It may be limited to a specialised area e.g. cleaning services	<ul style="list-style-type: none"> • It may be a wide range of diversified products, or sell a large volume of a special product e.g. software
Offices		
Salaries		

Du Toit *et al* (2007: 126) discuss the reasons why businesses fail and conclude that poor management, especially in small business, is among the main reasons. Managerial incompetence (40%), lack of leadership (20%), lack of managerial experience (20%) and the lack of industry experience (10%) are the contributing factors.

2.5 Concluding remarks

The discussion in this unit differentiated between the entrepreneur and the small business owner or manager, and the roles that they play. The contribution of a small business (SMME) to the GDP of a country and to employment was discussed. The challenges faced by small businesses to survive and entrepreneurs to set up new firms were examined. Typical differences between corporations and small businesses were explored. We concluded the unit, by identifying the reasons why small businesses fail.

In the next unit, the nature of management will be examined, in particular the historical development of management concepts and theories and the most important current theories and models.



Test your knowledge

1. Differentiate between an *entrepreneur* and a *small business owner*.
2. Elaborate on the meaning and context of the acronym SMME.
3. Evaluate two main challenges of entrepreneurs. Why did you select these two?
4. Discuss the link between business failure and management.
5. In your opinion, why is the contribution of small business to GDP so low in South Africa? Explain.
6. There are several reasons for entrepreneurs starting businesses. Discuss three reasons why you think this is happening in South Africa.
7. Explain the concept of business mindset.
8. Discuss three differences between small businesses and corporations in the management context.
9. Distinguish between *creativity* and *innovation*.
10. Discuss the future of close corporations.

Unit 3: The nature of management



Unit 3 is aligned with Learning Outcome 2 and Assessment Criteria 2.1, 2.2 and 2.3.

Learning Outcome 2:

Discuss the theory and practice of management comprehensively

Assessment Criteria:

- 2.1 Outline the main historical developments of management
- 2.2 Explain the fundamentals of the theory and practice of management
- 2.3 Discuss organisational behaviour as a factor in management



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 4 and 5.

3.1 Introduction

To be able to manage people and activities effectively, it is advisable to examine management as a process with many dimensions and not to assume that 'it comes naturally'. In this unit, we will investigate the following aspects related to the management process:

- The reasons for the importance of management
- The competencies, skills and attitudes that are expected of managers
- The roles that managers play in an organisation or a company

To start, we will examine the history of management and the theories that have developed around the discipline.

3.2 The historical context

Step back in history and try to imagine what our society looked like some 200 years ago. On most continents, people worked essentially to survive; i.e. to meet their needs at the lowest level of Maslow's hierarchy of needs.

This means that most people lived in agrarian societies, where they farmed and traded food and basic needs such as fabric, spices, salt and elementary tools. The nature of management related to managing families, clans and villages.

At the same time, more advanced organisations already existed. Shipping by governments and individual owners meant that goods were purchased from and sold to other countries and to neighbouring areas. Some manufacturing and mining also existed. Entrepreneurs arranged work teams to mine for copper, silver, iron and semi-precious stones, processed and sold these to people with money or goods to exchange, a system called **bartering**. Carpenters, builders and blacksmiths used more durable and heavy tools and processing methods. Many societies managed to develop fabric and garment factories using wool, cotton and silk. We can see that all these required management of a more complicated nature.

The industrial revolution in the United Kingdom, Europe and the United States, and similar developments in China and Japan meant that manufacturing and the building of railways, large metal ships, bigger ports and more mechanised mining created much bigger enterprises. While some of these were owned by individuals, the idea of selling shares in enterprises took hold and small moneylenders and newly created banks started lending people capital to start and operate small businesses, sometimes based on crafts, which often became medium-sized. The largest organisations were often armies used by non-democratic rulers for invading neighbours, or occupying faraway territories where they saw some economic benefits, also known as colonial rule.

The very nature of society, government and business changed in the 1800s and early 1900s and this brought different types of businesses and organisations, meaning a more systematic and organised management. Major technological developments that contributed to that were the ability to generate electricity and the introduction of the telephone, radio and television. The changes to business and the growth in government and other large organisations meant that managers and academics started analysing and theorising about managing activities and people. The size of armies, the duration of wars over the years and the industrial development from that (think of tanks, aircraft, ships, cannons and logistics) significantly contributed to industrial development and management thinking.

In the last 50 years, the nature of work and trade has changed even more rapidly. The introduction of computers into the organisational environment to process information fast and reliably and to store large amounts of data, as well as the development of the Internet as means of communication, all contributed to a more demanding business environment and complex interaction with suppliers and customers.



Read the example of the Shoprite Group of Companies in the introduction to Chapter 5.

We can expect the introduction of more sophisticated and affordable communications and data processing hand-held devices, such as smartphones, to change the nature of communication, business and management even more in the next decade.



Useful websites

- www.saim.co.za
- www.mindtools.com
- www.ibm.com/ibm/history/documents/pdf/management.pdf



Du Toit *et al* describe **management** as “the process followed by managers to accomplish a business’ goals and objectives”.

More comprehensively, management is defined as “... a process of activities that are carried out to enable a business to accomplish its goals by employing human, financial and physical resources for that purpose” (Du Toit *et al*, 2007: 129).

In the next section, the development of management theories and approaches that came with changes over the last century will be examined.

3.3 Traditional approaches to management

Management has seen steady development during the last century as organisations and businesses changed. Managers adapted to new demands and realities of new industries, products, markets and organisational behaviour. The study of management history, in detail, would require substantial time, which is beyond the scope of this module.

In this section, the focus will be on the key concepts that influence the tasks and focus of managers.



Background reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 5: Section 5.1–5.4 and Figure 5.1

- Study Sections 5.1–5.4, which outline the developments in management in detail.
- Study Figure 5.1, which summarises the stages in the development of management from the 1900s to the present day.

Background reading (Continued)

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 5: Figure 5.1.

Figure 5.1 is an essential diagram for students to study in conjunction with the following key concepts:

- The five principles of Bureaucratic Management defined by Max Weber (Section 5.1.1)
- The description of and four principles of Scientific Management defined by Frederick Taylor (Section 5.1.2)
- The description of Administrative Management and understanding the 14 principles of management, defined by Henri Fayol (Section 5.1.3)
- A description of the Behavioural Approach to management (Section 5.2)
- The difference between Theory X and Theory Y developed by Douglas McGregor
- Descriptions of the Quantitative approach, the Quality approach and the Systems approach (Sections 5.3 and 5.4)

3.4 Contemporary approaches to management

Generally, contemporary approaches are seen as the:

- Systems approach
- Contingency approach
- Quality approach
- Learning organisation

The **contingency approach** argues that the type and focus of management depends on the nature of every situation. For example, the manager of a team that builds a road will manage his staff and their activities in a different way from a manager supervising a team of accountants preparing and audit report, a team of cosmetics salespeople or a team of university lecturers. (Section 5.4.2)

The **learning organisation** approach, formulated by Peter Senge, relates to the idea that people, staff and organisations need to change and learn all the time, because people, organisations, technology and society change all the time. This relates to the principle that, firstly, organisations and jobs are increasingly knowledge-based and, secondly, dependent on information as part of the information society. (Sections 5.4.4 and 5.4.5)



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 5:

- Consult Section 5.4.2–5.4.5 to do further reading on the contemporary approaches to management.
- Undertake Activity 5.6.



Useful websites

- www.iso.org/iso/qmp_2012.pdf
- www.freewebs.com/jaysam/presentation.ppt

Management continues to evolve and the complexity of organisations and their activities means that managers apply a blend (variety) of management approaches to be able to manage effectively. Scientific management, for example, may be an old concept, but it is applicable where workers manufacture sophisticated tools and machinery, which need to be measured and calibrated, and where errors cannot be tolerated. This also brings the quality and quantitative approaches to managing, e.g. quality control and keeping statistics of quality and faults.



Task 3.1

1. Study the *News Media* of August 2013 and the Eskom website to form an impression of the management, quality and project management problems experienced at the Medupi power station in the North West Province.
2. Identify the key management issues.

The development of management theory, approaches and practices is also studied in the module on organisational behaviour.

We have seen that management, at the organisational level, is important to ensure that the organisation complies with its objectives, whether to sell food at the local supermarket, procure and sell medicine at a pharmacy, repair computers in the PC shop, operate a university or managing a football team.

Does management, have something to do with the individual? In the next section, the importance of management on the individual level within an organisation and society will be studied.

3.5 The importance of management

The concept of **self-management** starts with us. We need to manage our time; to plan and manage our activities; to take responsibility for our own actions and to plan our future. This ranges from studies to insurance, from finances to employment, from family to house ownership. We experience stress when we are not successful and we panic about some decisions. Sometimes, we struggle to be motivated and sometimes we are highly energetic. All these dimensions impact on our personal lives and on our work environment (i.e. in the organisations where we work). A key objective is to achieve a **work-life balance**.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 4: Section 4.1 and 4.2.

Study Sections 4.1 and 4.2 attentively and consider your own current and future situation.

You may also learn more about these aspects in the modules on employability and professional development and personal development.



Useful websites

- www.myfuture.edu.au
- <https://student-learning.tcd.ie/undergraduate/topics/self-management>
- www.humanmetrics.com

This topic is important to every student. In the next section, we will focus on organisational behaviour as a factor in management.

3.6 Organisational behaviour and management

As the wording suggests, organisational behaviour (OB) is the study of the way in which organisations behave and the way in which individuals and groups of people such as teams behave within organisations, as well as how they affect one another.



Robbins, Odendaal and Roodt (2001) define **organisational behaviour** as "... a field of study that investigates the impact that individuals, groups and structure have on behaviour within organisations for the purpose of applying such knowledge towards improving an organisation's effectiveness".

"OB is concerned with what people do in an organisation and how that behaviour affects the performance of the organisation" (Robbins, Odendaal & Roodt 2001:7).

These definitions contain important dimensions and have many implications:

- OB studies behaviour at three levels: individual, group and organisational level.
- Knowledge is applied in a useful way.
- Internal (and external) environmental factors may influence the organisation.
- Organisations are open systems: they do not operate in isolation.
- Because they are open systems, they have to respond to the needs of clients and other stakeholders.
- Management must be responsive to the information received.
- Organisations have short and long-term interests and they should try to anticipate what the future holds.
- Behaviour and attitudes will impact on individual, group and organisational performance.
- Managerial activities such as decision-making, leading, motivation and performance at the individual and organisational level may all be interrelated.

The many dimensions of OB are the focus of the study in the module on organisational behaviour. In this module, we want to keep in mind that management is an activity of people, staff and managers in organisations, particularly in business, that depends on, and is shaped by the nature of the organisation and by the environment in which it operates. This is, incidentally, at the root of the 'open systems' idea. When we study the managing of business in this module, we cannot see management activities in isolation. We need to keep in mind that there are complex interrelationships in managerial and organisational behaviour. This will become more evident as we study business and business management in later units.

3.7 Concluding remarks

In this unit, the industrial and economic developments of nations over the last two centuries and the evolving thoughts and theories on management over the same time were explored. Traditional management concepts developed in keeping with the realities of ownership and management changes in business. Thereafter, contemporary management thoughts and their application in organisational management, including business, were discussed. These principles remain valid today. The links between management and organisational behaviour were introduced to clarify the broader context of management. The importance of self-management was also discussed.

The next unit continues the study of management by looking at the qualities, skills, competencies, levels and other characteristics of managers.



Test your knowledge

1. Describe the key dimensions of Fayol's administrative management and Weber's bureaucratic management and highlight the difference.
2. Explain in which way Taylor's scientific management principles and ideas may still be relevant today. Give examples.
3. Explain the relevance of Organisational Behaviour (OB) to management.
4. Discuss the importance of self-management.
5. Discuss the systems approach and the contingency approach to management. Which of these would be most suitably applied in a steel factory? Justify your answer.
6. Read the following scenario attentively and answer the questions that follow.

You are a new manager in a large electronic workshop repairing computers and peripherals, designing applications and software for use by small businesses that IT products. When you were appointed, the owners told you that the previous manager had the attitude that all employees were lazy and needed to be supervised carefully and continuously. Some of the best employees resigned because of that. Employees are still nervous about management and the atmosphere in the firm is tense.

Source: Dietrichsen, P. 2014.

- 6.1 In your opinion, which management theory did the previous manager adopted?

6.2 Explain the way in which the behavioural approach to management could be applied in the business. Do you regard the behavioural approach as the most suitable approach in this case? Prepare your answers for discussion in class.

A series of horizontal lines for writing an answer, consisting of 20 evenly spaced lines.

Unit 4: Roles and qualities of managers



Unit 4 is aligned with Learning Outcome 2 and Assessment Criteria 2.4 and 2.5.

Learning Outcome 2:

Discuss the theory and practice of management comprehensively

Assessment criteria:

- 2.4 Identify the competencies, roles, skills and levels of line and staff managers in an organisation
- 2.5 Discuss the challenges associated with becoming a manager



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 4 & 6.

4.1 Introduction

In the previous unit, the historical developments leading to a series of management theories and approaches, from the traditional to the contemporary, were discussed. The relevance of management at the individual level and the broader organisational context were explored. In this unit, the manager's responsibilities, tasks and functions, roles, skills and their challenges, will be identified.

4.2 Types of managers

The nature of an organisation largely determines the types of managers that are found in an organisation, as well as their responsibilities.



For **example**, in the Department of Home Affairs (the Department), functional managers responsible for issuing passports, identity books, death certificates and birth certificates will be found. These are the core functions of the Department. However, there will also be managers responsible for the finances, the human resources and the information technology of the Department. These are support functions, also called staff functions. In a hotel, there will be managers for the reception and reservations, for the restaurants and bars, and for housekeeping. There will also be a general manager and the same type of support functions for HR, IT and finances.

We need to ask ourselves two questions: Are they all at the same level? Do they all require the same characteristics for what they do?

There are several ways to classify managers, but generally, we can distinguish between three levels or types of managers: top managers, middle managers and first-line managers. In theory, a person would start as a first-line manager, progress to a middle manager and then later become a top manager provided he has the drive and the other traits of a senior manager.

By implication, the logical distribution of responsibilities and tasks would be that the first level manager would be an important cog in the 'wheel' of the business, being responsible for the day-to-day operations of the organisation, but perhaps less 'important' than those at middle and top levels, who play a more strategic role.



Managers at different levels need and use different skills to a different extent. Imagine a supervisor in a motorbike factory who oversees ten workers on the assembly line. It can safely be assumed that this supervisor, a first-line manager, will need knowledge and technical skills to be able to manage people who do a technical job. If something breaks down, he needs to know how to repair it and needs problem-solving skills in that technical environment.

Source:

<https://www.google.co.za/search?q=motorbike+factory>

He also needs to know his workers, so that he can keep them motivated and happy; otherwise, he may not be able to reach his production targets. He needs people-skills, or human skills.

It is unlikely that the middle manager and the top manager would need the same set of skills. The top manager will need fewer technical skills, but he still needs people skills to appoint and manage the right middle managers. He also needs to be able to formulate and implement a long-term strategy for the firm and make decisions about the right markets and right products, i.e. **cognitive skills**.

Cognitive skills refer to the ability to understand complex things and to relate them to a particular situation and/or other factors.

Therefore, we can conclude that the top manager needs additional cognitive abilities to be able to understand and analyse all the dimensions and make the right top-level decisions.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 4 & 6.

- Study Section 4.3 and Figure 4.1 carefully, in order to understand the relative responsibilities and the nature of what managers at these three levels do.
- Study Section 4.3.3 and Section 6.2 carefully to understand what the managerial skills entail: technical, human and cognitive.

4.3 Managerial roles

The roles of managers in organisations were extensively researched by Henry Mintzberg. Note that managerial roles are different from the managerial skills of cognition (understanding), human (interpersonal) skills and technical skills, which are identified in Section 4.3.3 in the e-book. They also differ from the tasks or functions that will be discussed later in this unit. Roles are the functions that managers are expected to perform (Mintzberg, in Botha & Musengi, 2012:81).

Managerial roles are generic – not business-specific – and they apply to the context of all organisations. Mintzberg classified managerial roles into three categories: informational, interpersonal and decisional. These three categories are subdivided into ten roles that managers play in the process of managing. A clear understanding of these roles will help any new manager and his/her subordinates to understand why he/she does or has to do certain things. The roles are summarised in the table below.

Table 2 – Managerial roles

Interpersonal	Informational	Decisional
<ul style="list-style-type: none"> • Figurehead • Leader • Liaison 	<ul style="list-style-type: none"> • Monitor • Disseminator • Spokesperson 	<ul style="list-style-type: none"> • Entrepreneur • Disturbance-handler • Resource allocator • Negotiator



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 4:

Section 4.3.2 and Table 4.1 (Columns 1–3), where the categories and roles are explained and related to business

Background reading

Table 4.1 (Columns 4 and 5), where the roles are related to government and not-for-profit organisations

It can be concluded that a top manager may play several roles in the module of a day e.g., figurehead, when he enjoys breakfast with a community leader and monitors information, when he consults websites and journals about developments in his industry. He is a disseminator, when he holds a meeting with managers to give them information and analyses it, and entrepreneur, when he makes a decision to commit capital to buy machinery for a new product to be manufactured. This range of roles naturally also applies to managers at the middle and first level, in different situations.



Task 4.1

- Undertake Activity 4.6.
- Engage in a discussion on different examples of these roles in different businesses.

4.4 Management and competitive advantage

In Section 2.4, the reasons given by Du Toit *et al* (2007) for the failure of business of which poor management is a key reason, were discussed. It follows, therefore, that one of the most important objectives of managers should be to lead and manage the business effectively to be successful (profitable) and to prosper (grow and survive) over the long term. Managers are responsible for securing, allocating and organising the resources of the firm, mostly human resources, finances, physical facilities, information, knowledge and technology.

In order to be successful, a firm needs to produce products and services more efficiently and effectively than its competitors do – i.e. it needs to be more competitive than its competitors are. This is part of the manager's challenge and it entails a range of elements, including motivating and training staff, innovating and designing new technologies and systems and following strategies that differentiate the firm from its competitors.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 4: Section 4.4.

Study Section 4.4 carefully to be able to explain and apply this aspect.

This section also relates to the study of Economics dealing with absolute and relative competitive advantage, terms of trade and strategic advantage, while the study of marketing also strives to find marketing strategies that can give a firm such advantages.

4.5 Managerial competence

In the next unit, the main generic tasks or functions of managers – i.e. planning, organising, leading and controlling – will be discussed. In this section, the competences of the managers will be investigated. Note that there may be industry-specific competencies, e.g. in engineering and IT, or finances and HR management. There are differences between (physical) skills that managers acquire, e.g. computer skills, knowledge which comes from learning and experience, and competencies, e.g. analytical ability, eloquence, objectivity, self-insight, emotional intelligence and problem-solving capacity.

A competent manager will have the required competencies, skills, attitudes and knowledge, but 'competent' is not the same as 'competency'. The latter refers to a set of characteristics that makes a person a potentially successful and competent manager.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 6.

Study Figure 6.2 and Sections 6.3 and 6.4 carefully on the extent of intrapersonal and interpersonal competencies.

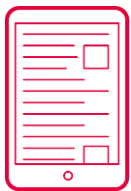


These views are based on the work of Boyatzis (1982), who defined a **competency** as “... an underlying characteristic of a person which results in effective and/or superior performance” (Botha & Musengi, 2012:112).

It should be noted that not all writers on management share the same perspective(s) on the use of the word *competency*. Pedler, Burgoyne and Boydell prefer to call them *qualities*. They identified 11 such qualities, which are listed in Table 3.

Table 3 – Management qualities

Basic knowledge	Skills and attributes	Meta qualities (ability to develop and apply other skills)
<ul style="list-style-type: none"> • Command of the basic facts • Relevant professional knowledge 	<ul style="list-style-type: none"> • Sensitivity to events • Social skills • Emotional resilience • Pro-activity • Analytical, problem-solving, judgement/decision-making abilities 	<ul style="list-style-type: none"> • Creativity • Mental agility • Balanced learning habits and skills • Self-knowledge



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 6: Section 6.3.

In concluding this section on competence, you should pay particular attention to the description of emotional intelligence (EQ) which forms part of Section 6.3. This topic frequently surfaces in the study of management, human resource management, personal and professional skills development and organisational behaviour.



Useful websites

- https://www.hr.cornell.edu/life/career/management_competencies.pdf
- www.umich.edu/~dsafinhr/competencies.html
- www.employeeservices.gov.sk.ca/LMcompetencies

4.6 Challenges of the new manager

Linda Hill (2003:xiv & 6) conducted research on the challenges faced by new managers for the Harvard Business School. She published her findings in the book, *Becoming a manager* for the *Harvard Business Review*.

The concerns of new managers at the first-line level were distilled into three basic questions:

- How can I be more effective dealing with organizational politics and in influencing my peers and superiors?
- How can I develop and lead a diverse team in times of change?
- How can I build a successful managerial career?

It can be observed that these are practical operational issues and not theory or management philosophy. A further key observation was that becoming a manager transformed the individuals in the study from specialists and doers to generalist managers, who set agendas.

From strong individual performers to network builders and managers organising others to get things done, they learned to cope with stress and developed self-knowledge and interpersonal judgement. Some of the main challenges in the study were:

- Dealing with others' perceptions and own expectations
- Learning what roles managers play
- Making the transition from being an individual contributor to managing other's contributions
- Dealing with the workload and the pace of work
- Developing a managerial identity – thinking like an agenda-setter
- Becoming a network builder
- Developing interpersonal judgement (sometimes through trial and error)
- Developing capacity to exercise power through influencing and establishing credibility
- Developing the appropriate style of management, not being autocratic
- Motivating and leading subordinates and managing performance
- Coping with interdependence and relationships building

It can be concluded that many of these challenges relate to the general tasks, roles and responsibilities of the manager in a generic sense. Not much reference is seen to technical, functional and business-specific matters such as budgeting, IT, marketing or operational matters. It can also be concluded that, largely, managers already had the business-specific skills, knowledge and experience by the time they became managers and that the challenges were not job-related but management-related.

4.7 Concluding remarks

The content of this unit is significantly important to any future manager. The level and roles of managers, including key skills such as cognition, interpersonal and technical skills, were introduced. The concept of competencies, which is not universally accepted, and qualities of the manager with potential were explored.

The types of managers and the concept of competitiveness as a management issue were discussed. The practical and conceptual challenges of the new manager were also highlighted.

In conclusion, it must be pointed out that this is an introduction to management and to business. The scope of the study of management is vast and cannot be covered comprehensively in the module. You will explore the topic of management in more depth in other modules.

The next unit will focus on the management task of planning, which starts the study of management tasks (planning, organising, leading and controlling).



Test your knowledge

1. Explain the meaning of each of the following concepts:
 - 1.1 Levels of management
 - 1.2 Management skills
 - 1.3 Line and staff managers
2. Write a briefing paper, with suitable examples, in which you explain the information role and the decisional role of managers to a new manager.
3. Analyse the key dimensions of Boyatzis's definition of a management competence. Do you think those are applicable in a developing country such as South Africa?
4. Differentiate between a network builder and a manager with good interpersonal skills.
5. Based on Hill's research, discuss three of the most important challenges for new managers. Explain the context and justify your opinion.
6. Explain the link between competitive advantage and management to a group of new shareholders at a meeting. Prepare a briefing paper to make a presentation.
7. Relate the importance of cognitive abilities, people skills and technical skills to the responsibilities of managers in a business. Demonstrate your explanation by applying it to an example of your own.

8. Read the following scenario and complete the given task.

You have spent the last five years as chief accountant of an advertising firm, and before that, three years as accountant. Given that you studied marketing at university, you applied for a position of junior manager of the advertisement sales team consisting of three people. Your proven record as a loyal staff member and your academic background convinced the senior managers that you have potential as a manager. You were then appointed. You have three weeks before you assume the position.

Source: Dietrichsen, P. 2014.

Construct a plan for the first two months in the new management position to indicate what your priorities and actions will be, against the background of Hill's research.



Lined writing area consisting of multiple horizontal lines for notes.

Unit 5: Planning as a management task



Unit 5 is aligned with Learning Outcome 3 and Assessment Criteria 3.1 and 3.2.

Learning Outcome 3:

Discuss management functions and tasks and the application of these in a business

Assessment criteria:

- 3.1 Explain the interrelationship between the generic functions of management and organisational strategy
- 3.2 Discuss the nature of planning in an organisation and its application in a business



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7.

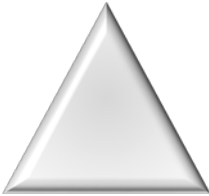
5.1 Introduction

Following the discussion on the dimensions of management in Unit 4, this unit will take a close look at the task that the manager fulfils to be able to do his job, i.e. to manage the enterprise. We will demonstrate that the tasks or functions of the manager are closely linked to the nature of the business. In reality, the actual job of the manager is closely linked to the environment in which the enterprise functions and the character of the business. The interrelationship between the tasks, the job of the manager and the strategy of the organisation will be explored.

5.2 Organisational strategy

The strategic management of the enterprise is a study in itself and falls outside the scope of this module. Nevertheless, it is an integral part of managing and of business and, therefore, the main elements of the strategy will be introduced here and related to the task of the manager. Table 4 summarises some of the key elements.

Table 4 – Elements of the management strategy

Level and responsibility		Element of strategy
<ul style="list-style-type: none"> • Owners, Board and top management 		<ul style="list-style-type: none"> • Vision and mission • Long-term strategy and goals 3–10 years
<ul style="list-style-type: none"> • Middle management, SBU managers 		<ul style="list-style-type: none"> • Tactical, functional and departmental goals/objectives. 1–3 years
<ul style="list-style-type: none"> • First line and lower managers 		<ul style="list-style-type: none"> • Operational objectives • Current up to one year

Du Toit *et al* (2007: 154–155) describe the areas in which the goals are formulated as follows:

- **Long-term or strategic goals:** productivity, competitiveness, human resources development, profitability, technological leadership and social responsibility
- **Medium term or tactical goals:** how to carry out tasks to be able to achieve the strategic and long-term goals
- **Operational goals:** short-term labour supply, focus of the month, targets, etc.
- **Personal objectives/goals:** what individual employees hope to achieve in their activities, such as self-development, income, incentive payments, and personal goals. (There may be a certain tension between personal and organisational goals if they cannot be reconciled).



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7:

- Section 7.1.2 and Table 7.1 – to see how the levels of organisational strategy relate to planning at strategic, tactical and operational levels
- Figure 7.2, which explains that effective goals need to be formulated in a SMART way. This is an important aspect of goal and objective setting in many aspects of business
- Section 7.1.4, which explains the difference between goals and objectives
- Different types of plans are discussed in Section 7.1 and their benefits in 7.1.1
- The planning process is discussed in Section 7.2



Background (supplementary) reading

Management study guide. 2015. Chapter 15. [Online]
Available at: <http://www.managementstudyguide.com/>

Study Chapter 15, which deals with integrated management.

5.3 Planning as a management task

Planning can range from short-term small matters such as planning a Saturday evening outing, or an outing to a football game or a study schedule. Planning involves careful thinking, analysis and anticipating what resources may be needed to execute the plan. How is planning defined?



From the definition of management, we can deduce that **planning** "involves identifying an organisation's goals and objectives and developing strategy to achieve them". It is a blueprint or map that "specifies the necessary resources, schedules, tasks and other actions needed to achieve that goal". Planning is "... setting up a series of steps to achieve a specific goal" (Botha & Musengi, 2012:127).

There are different types of plans in addition to the levels of planning described above. Specific, directional, single-use and standing plans each plays a role in business planning. Keep in mind that setting goals and objectives should precede the scheduling of planning activities. You should also be able to apply the concept of **SMART goals** – i.e. being specific, measurable, appropriate, realistic and timed or time-specific by formulating such goals.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7.

- Read the scenario in Section 7.1.2.
- Complete Activity 7.2.
- After studying Section 7.1.3, you should be able to distinguish between the different types of plans and their usage.

Planning is an important part of the manager's tasks and is of strategic importance for the enterprise. The potential benefits of planning, or the risks of not planning, must be understood. The very nature of the word points to planning as being **future-oriented**.

From the definitions, it can be concluded that planning relates to organisational performance and reaching goals. A lack of planning may lead to poor performance some time in future, including failure to achieve objectives and broad organisational goals.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7: Section 7.1.1.

Read the discussion on the benefits and importance of planning in Section 7.1.1 attentively and apply your mind to the process of considering these in a practical case.

5.4 The planning process

Planning is an important management function in any organisation and failure to plan involves serious risks for the business. Furthermore, planning relates to the desire of successfully achieving organisational goals. It would be logical to assume that it should be a systematic and thorough process. Allowing for possible variations, different situations and different businesses, there is a recognised process of planning with a sequence of nine steps that are closely integrated in a coherent manner.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7: Section 7.2.

The nine-step planning process, as discussed in Section 7.2, is an important element in the management task of planning. This should be applied in a practical exercise as part of learning about planning and developing some skills in this area.

5.5 The interrelationship of tasks

In the previous sections, the importance of and the dimensions of planning as a management task were discussed. This does not imply that other tasks such as organising and control are less important; neither does it imply that any task can stand on its own. Poor planning may lead to the inability to organise resources and activities effectively. Uninspired leadership may cause even the best plans and careful organising to lose momentum. Careful planning followed by careless decision-making and poor controls may result in poor quality products, or poor financial management and underachievement in key areas of organisational performance, such as profitability and customer satisfaction.

Managers have to perform these four major tasks in a coherent and integrated manner to ensure that resources and the work of staff are efficiently and effectively coordinated.

5.6 Decision-making and planning

You would have noticed that Steps 4 and 5 of the planning process require managers to “list alternative ways of reaching objectives” and then to “choose the best alternative for reaching objectives”. This implies that managers, having decided earlier what the organisational goals and objectives are, now have to select from alternatives to decide on the best module of action. That is then implemented by organising and controlling activities, to ensure that the action is taking place according to plan and schedule. Both types of tasks also require decisions. The management process should be holistic and integrated, as explained in Section 5.6, to be able to maximise synergy. Decision-making is a responsibility that runs through every phase of managing.

Decisions are typically made under conditions of uncertainty – it is not certain what the future brings – and there are risks involved. Some are routine decisions and others are important in terms of problem-solving (innovative decisions). Adaptive decisions may involve changes in the operating environment and it requires choosing options about changing the module, adapting to a new situation or modifying earlier decisions.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 7:

- Introductory part of Section 7.3
- Subsections 7.3.1–7.3.3, which deal with the types and conditions of decision-making

Background reading

Section 7.3.4, which explains the decision-making process and the steps in the process

The topic of decision-making is not only a key part of management; it is also a key part of business and will again be considered in the context of the business functions.



Useful websites

- www.businessballs.com
- www.businessdictionary.com/definition/decision-making.html

5.7 Concluding remarks

In this unit, we explored the inter-relationship between the management tasks and the fact that none of these could stand alone. We also discussed the meaning of 'planning' and the way in which it relates to organisational strategy, in particular strategic planning. The planning process and the benefits of planning were investigated. Planning objectives and broader goals must meet the criteria of SMART to be effective. It was concluded by referring to the importance of decision-making as part of planning, particularly the manager's task of choosing between alternative strategies, modules of action, costs and other operational options.

The next unit will deal with the tasks of organising and controlling.



Test your knowledge

1. Explain the responsibility of the middle manager in the strategic management of a business. How is that different from the task of the top manager?
2. Describe the meaning of the acronym SMART and indicate its importance. Create a brief business scenario and suitably apply the SMART tool.
3. Discuss the three different types of plans and indicate where and how they are used.
4. Explain in which of the four main management tasks the decision-making responsibility is relevant. Elaborate to justify your explanation.
5. Analyse the importance of planning in a business and apply your argument to a catering business that is responsible for large dinners and receptions all over Gauteng.
6. Analyse the definition of planning to identify its key dimensions.
7. In the sequence in which a manager undertakes the four main management tasks, explain why planning always comes first (if that is the case).
8. Create the hypothetical outline of a recently established medium-sized business in the transport industry, e.g. a bus company. Draw a diagram to explain the planning process and to apply the theory/model to the company and its operations.

Unit 6: Organising and control as management tasks



Unit 6 is aligned to Learning Outcome 3 and Assessment Criterion 3.3.

Learning Outcome 3:

Discuss management functions and tasks and the application of these in a business

Assessment Criterion 3.3:

Discuss the organising and control tasks of management and their application in business operations



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 8 and 10.

6.1 Introduction

In the previous unit, we discussed the interdependent nature of management tasks and the focus was on the task of planning as part of strategic management. The importance of decision-making as an action that occurs as part of every management task was also discussed.

In this unit, we will focus on organising and control; what these concepts mean and how they relate to management tasks. Planning, essentially, is the process of deciding **what** has to be done, whereas organising indicates **how to** do it and leading **influences** people to do it. Control involves **checking** that it was done as specified. Ideally, these should be done in an aligned fashion to keep the enterprise in equilibrium.

6.2 The nature of organising

In earlier management literature, the function of 'coordination' was sometimes included as a task of management. However, in practice, organising (and planning and control), to an extent, encompass coordination. How can 'organising' be defined?



Organising means that managers must “develop mechanisms to implement the strategy and plan” (Du Toit *et al*, 2007:167).

Botha and Musengi (2012:143) take this further by adding that “organising means combining the human, physical and financial resources of the business so that they work well together”.

From these definitions, it can be concluded that organising is an indispensable part of management, in that it ensures that resources are not wasted. The discussion by Du Toit *et al* (2007:169) further identifies the main elements of organising as:

- Detailed analysis of work to be done and resources to be used
- Dividing the total workload into activities that can be done by individuals and groups
- Promoting the productive deployment of resources
- Developing an organisational structure
- Creating a mechanism that coordinates the “activities of the whole business into complete, uniform, harmonious units”

Organising has two dimensions: formal organising and informal organising.

Formal organising occurs through the organisational structure, processes, job design, strategy and authority levels. The somewhat **informal organising** is more dynamic and relates to daily operations, problem-solving, coordinating staff activities, revising plans and targets, adjusting strategy, induction of new staff, dealing with contingencies and crises and organising teams to deal with projects.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 8:

- The value and reasons for organising (Introduction and Section 8.1)
- Organising process (Section 8.2) and the factors influencing the process (Section 8.5)
- Organisational design (Section 8.3)
- Job design dimensions and purposes (Section 8.3.3)



Useful website

www.lib.cam.ac.uk/dataman/organising.html

6.3 Organisational design

This section introduces the design of an organisation's structure based on certain criteria and purposes. The structure is not designed simply because it looks good in an organogram. Each functional department (such as finance, marketing, operations and human resource management) groups its activities to be practical and efficient. The design can also be based on geographical regions or countries, or, in some other cases, on products, e.g. gold, platinum or coal mining departments. In some organisations, the structure is based on major customers, e.g. in an advertising firm. Support functions such as IT, public relations, corporate communication and research and development (R&D) may fall under one division, sometimes called 'corporate services', but may also reside elsewhere in the design.

Organisational design is a topic that you will frequently encounter in other modules, such as Marketing Strategy, Human Resource Management and Operations Management.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 8.

- Study Section 8.3 carefully, in order to understand the nature of these organisational designs based on different types of departments and the reasons why they are designed in such a way.
- Undertake Activity 8.1–8.4.
- You should be able to apply the concepts to practical cases and understand the use of the mind map as a thinking tool in Activity 8.4.



Useful websites

- www.cipd.co.uk
- <https://www.boundless.com/management/organization-al-structure--2>



Background (supplementary) reading

- Stephen P. Robbins is the foremost expert on organisational design.
- Search for information on his writing on this topic.

6.4 Organisational structure

In the introduction to management, line and staff functions and the levels of management were discussed. Some functions such as legal and IT are support functions, whereas operations are a core business function. Based on the design dimensions discussed in the previous section, managers have to formalise the organisation of activities into organisational structures.

A variety of functional, line and staff, project and matrix organisational structures can be found. Some organisations may be organised into large divisions, e.g. manufacturing and building projects, and within each division, there may be different structures, e.g. project-based for construction and product-based departments for factories.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 8: Section 8.4.

Study Section 8.4 carefully and take note of the advantages and disadvantages of each type of structure.

The structure determines the **line of authority**, i.e. who reports to which manager and how they relate to each other. Structure also determines the horizontal relationship among functional managers and departments; i.e. how collaboration between departments operates. Tall structures with many layers of management create a certain relationship in the vertical authority situation. Flat, broad structures, with few layers, but many departments of operational units, horizontally, would change coordination demands and the nature of management's organising activities.

Whether stable or turbulent, changing business environments and economic cycles also have an impact on strategy and operations. They may affect the way in which work is organised and the way in which the business is structured or changed from time to time. Expanding sales and growing markets can have a positive impact on business, but technological changes and shrinking markets may call for a smaller organisation and change to jobs and structures.

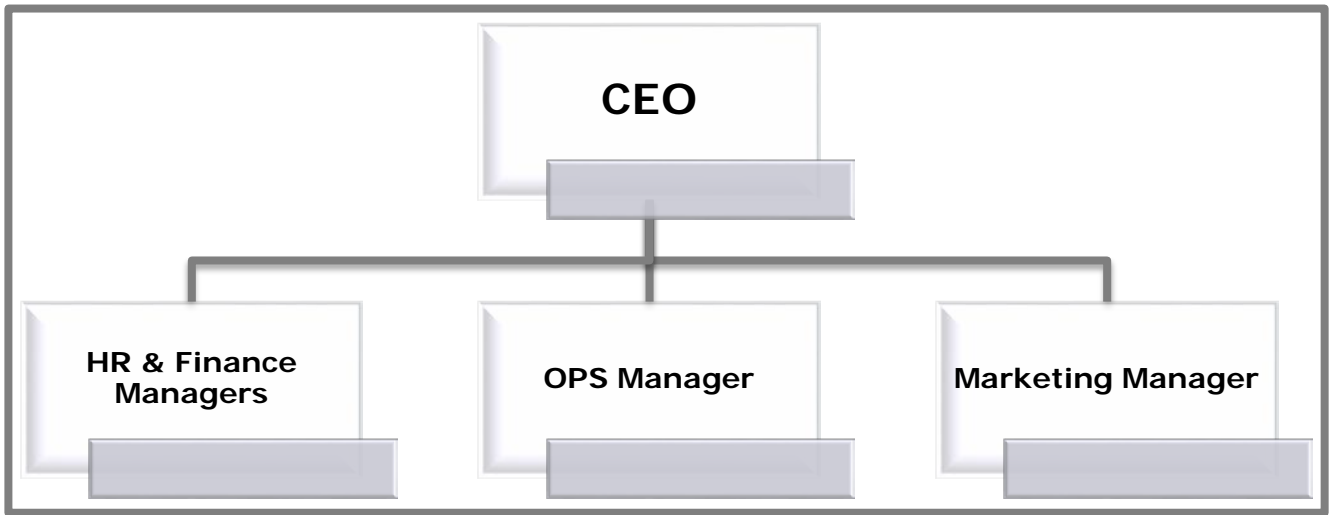


Figure 1 – Flat organisational structure

Source: Dietrichsen, P. 2014.

Organisations also tend to have **informal structures** and networks, which cannot be found on the organogram. Informal structures consist of people in the organisation, who have developed mutual confidence, who know that they can rely on one other and have a mutually beneficial relationship. They share information about activities and plans; they help one other to solve problems; they have informal discussions about tactics and plans and they exercise informal leadership to get things done, or to prevent things from happening. It is also called the *grapevine* and wise managers make sure that they have a link with and an understanding of this important (informal) network. Informal networks play an important role in the developing of organisational culture and knowledge management.

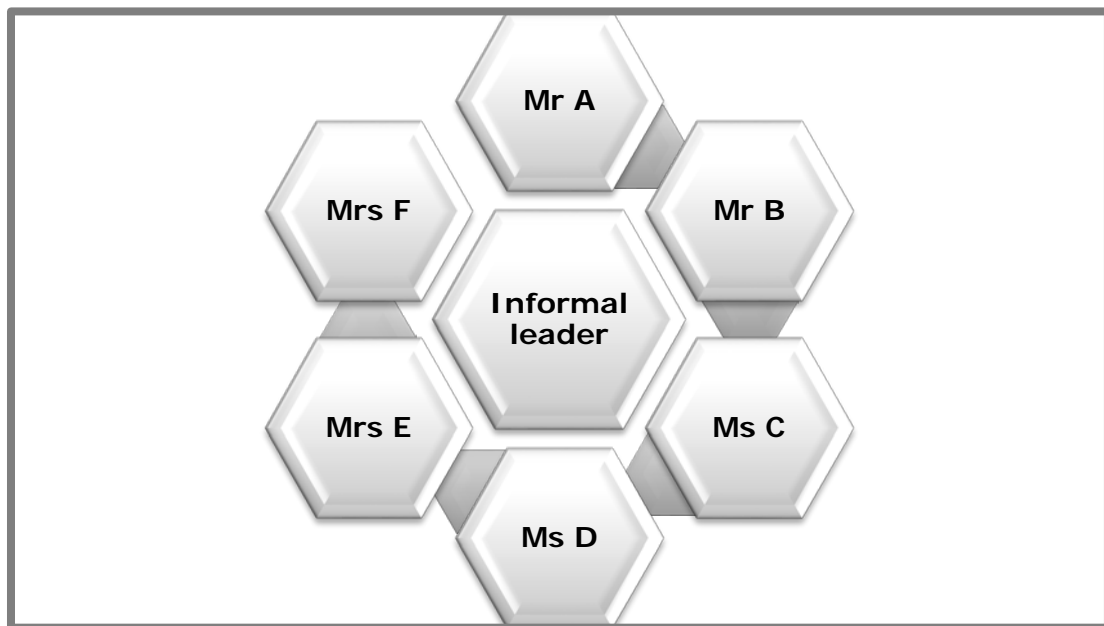


Figure 2 – Informal organisational structure (grapevine)

Source: Dietrichsen, P. 2014.

An organisation can use and manage the informal structure in different ways (Goldsmith & Katzenbach, 2007). The relationship between a mentor and his/her protégé is one of these. The mentor is a more established peer, who assists a colleague to develop skills and acquire knowledge. Another is the 'helper', which involves employees in task-oriented jobs such as sales, having someone they go to for advice and guidance. Informal networks are described as 'peer-to-peer' rapport-building discussions, which is a useful channel for feedback to managers (Goldsmith & Katzenbach, 2007).

In conclusion, keep in mind that the organisational structure has to serve the purpose of successfully organising work. That is the reason why workers are organised into teams and groups.



Essential prescribed reading

Geyer, L. 2013. Organisational behaviour. Johannesburg: CTI EDUCATION GROUP.

Study the behaviour of individuals, teams and groups in the organisational context in this Coursebook.

In the next section, we will focus on the nature of control and the processes involved in monitoring performance and standards.

6.5 The nature of control as a management task



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 10.



Control is a fundamental management activity and process "... aimed at regulating organisational activities in such a way that actual performance in the organisation conforms to the standards and goals set in the planning process". Standards must be realistic. (Botha & Musengi, 2012:191).

Based on the definition of control, it can be deduced that there are certain key steps in the process of controlling:

- Setting standards based on goals
- Measuring actual performance
- Evaluating deviations (also called the performance gap)
- Rectifying shortcomings or deviations (Du Toit *et al*, 2007:278)

The areas of control usually involves the control of the quality of products and services, financial performance, customer service standards, employee performance, performance by machinery and systems, inventory and supply chain activities are only a few of the.

At this point, you may wonder how organisations actually exercise control. Organisations have systems to control certain areas such as auditing for financial performance, total quality management (TQM) of products and services, performance management and appraisals for employee performance and customer feedback and surveys on products. In addition, there are day-to-day control processes by means of which managers assess targets and outcomes, supervise staff and evaluate teamwork. Managers have different styles of controlling, which often depend on the nature of the job and the skills and performance of the employee.



Essential prescribed reading

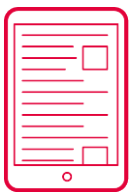
Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 10:

- The importance of control and styles of control (Sections 10.1.2 and 10.1.3)
- Levels and types of control (Section 10.1.4 and 10.1.5)

You will note that Botha and Musengi (2012) offer a slightly more comprehensive process of control in Section 10.2, but the main elements are similar. These elements are:

- Determine what to control
- Set up performance standards
- Observe and measure actual performance
- Determine reasons for any deviations
- Take managerial action

You should be able to describe this process and apply the steps and ideas to a case study. Pay particular attention to the types of standards (Section 10.2.2) and ways of measuring performance described in Section 10.2.3, as this describes an important dimension of the job of the manager.



Background reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 10: Section 10.3.

Read about the characteristics of an effective control system in Section 10.3.

6.6 Concluding remarks

In this unit, we discussed the tasks control, as part of the study of management in general and business management in particular. It is not an exhaustive study and control will be discussed again when business functions are addressed in later units. It will also form part of other modules, e.g. on financial management, operations and supply chain management.

We examined control as a task and tool for ensuring quality production and services and the effective allocation of scarce resources. The key points that we explored were, what and who are controlled, i.e. operations, staff, strategy, operations, production, output and financial performance. The steps to be taken when a gap or weakness/shortcoming in performance is detected, i.e. a deviation from the planned goals and objectives, also received attention.

We also introduced the management task of organising. We explained the nature of organising and the steps involved in the organising process. Organising as a process of organisational design, followed by the setting up of the organisational structure according to certain organisational characteristics such as functions, regions, products and focus were investigated. This is the more formal aspect of organising. The less formal tasks of daily allocating resources, duties and priorities, while solving problems and managing staff are the more dynamic and on-going element of organising.

In the next unit, we move our attention to leadership.



Test your knowledge

1. Elaborate on the purpose and nature of four control systems found in organisations.
2. Explain the value and function of a mind map and clarify how it can be used in organising.
3. Differentiate between core and support functions in an organisation. Give examples of these in a business.
4. Explain the difference between customer and product departmentalisation structures. Draw a diagram using practical examples.
5. Differentiate between the nature of the functional structure and the matrix structure. Use examples to elaborate.
6. Discuss the link between organisational strategy, particularly goals and objectives, and the organising process, if any.
7. Explain the link between *strategy* and *control*.
8. Explain the link between job design and departmentalisation.
9. There is a new manager in a business organisation in the building and construction industry, with several departments and levels of workers and managers, operating. In his department. The new manager supervises the work of three architects, three draftsmen (who draw plans for buildings) and a few administration staff.
 - 9.1 You are the HR manager giving the new manager a briefing. Explain to him the meaning of *responsibility*, *authority* and *power*. You may use examples to clarify. Consult Unit 7.
 - 9.1 After supervising architects and other staff for some time in his department, the manager realises that he does not understand what he is supposed to do in his 'controlling' function. Give him some examples applied to the job environment to help him understand some practical dimensions of control.

10. Following his visit to your office, you become concerned that other managers are also unsure about the nature and extent of control. Prepare PowerPoint slides (no more than five) and notes for a briefing to explain the following:
 - 10.1 The importance of control
 - 10.2 The areas in which control is needed
 - 10.3 Styles of control
 - 10.4 Types of control

Unit 7: Leading as a management task



Unit 7 is aligned with Learning Outcome 3 and Assessment Criterion 3.4.

Learning Outcome 3:

Discuss management functions and tasks and the application of these in a business

Assessment Criterion 3.4:

Explore the task of leading in an organisation and evaluate its place in a business



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9.

7.1 Introduction

The study of leadership can be extensive and complex. In this unit, the focus will be on leading as a management task within the context of managing in an organisation and, in particular, in a business. The emphasis is on the nature of the task and the place of the activity in management, and not on the broader study of leadership theories, philosophy, styles and models. Nevertheless, it is important for the aspiring manager and business student to have a sound understanding of the leading process.

The business world is constantly changing due to new technologies, increased capacity of IT and the Internet, economic and business cycles, demographic shifts in markets, growth or decline of income levels of consumers, scarcity of certain resources and increases in prices and changing preferences of new generations of consumers. Adapting to these changes, transforming businesses and organisations, leading businesses through crises and changing ownership or senior staff, are all matters demanding good leadership from people in management positions.

7.2 Dimensions of leading

It is important that you understand that leading is not the same as managing: managing is a broader concept than leading. Leading is one of the four key dimensions of managing, as indicated in the discussion on the four tasks of managers. People can work successfully as managers without being true leaders. There may be people in organisations, who have leadership abilities such as the capacity to influence and motivate others, while not being good at the demands of managing activities and resources.



Leadership is often described as the “*process of influencing employees to work willingly toward the achievement of organisational objectives*” (Du Toit *et al*, 2007:185).

Managers communicate their organisation’s vision, mission, goals and objectives, plans and expectations to subordinates. They listen to problems and help to solve them. They implement strategies and plans. When they take on the leading role, they motivate people and influence individuals, teams and groups to strive to achieve the vision and goals. They take the lead to “bridge the gap between plan and goals” by building teams and motivating staff.

Leading (Du Toit *et al*, 2007: 185), as part of managing, comprises of a few key elements that require the manager to understand his/her role. These are:

- **Authority** – the right to give instructions
- **Power** – the ability to influence subordinates’ behaviour
- **Responsibility** – the obligation to achieve goals, to do a job
- **Delegation** – the process of assigning responsibility to staff to take action and achieve objectives
- **Accountability** – how well they reach goals – they cannot be delegated to others

In practice, it means that a leading manager should not abuse his/her authority by giving unethical or illegal instructions. He/she must not misuse his/her power (use it for the wrong reasons). He/she must delegate tasks responsibly and remain accountable for all the activities, failures and successes of his/her department.

Botha and Musengi (2012:187) also discuss the leadership vs. management topic and pointed to an oft-repeated saying that leaders are people ‘who do the right thing and managers are people who do things right’. The latter refers to the demanding and detailed processes of planning, organising and controlling. They point to five significant tasks and challenges of the leader. These are to:

- Challenge the *status quo* and make changes where and when needed
- Develop the organisation’s vision and give it direction

- Develop strategies towards that new vision
- Communicate the new direction and get people's involvement
- Motivate and inspire staff and management

They also elaborate on the use of power by leaders, specifically the types of power that is based on the position of the manager, and power based on the personal characteristics of the leading manager.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9:

Study Section 9.2.2 to be able to distinguish between the types of power so that these can be understood in the interpersonal relationship with peers, supervisors and staff.

Read the introduction of Chapter 9 of the e-book on the nature of leading

7.2.1 Motivation

Motivating staff is considered one of the most important responsibilities of the leading manager. People change and evolve and, therefore, motivation is a dynamic process. Managers will experience that no two staff members are motivated in the same way and by the same incentives. People change and evolve.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9:

- Variables for creating a motivated work environment (Table 9.1)
- The dynamics and the process of motivation (Section 9.1 and 9.1.1)
- The motivation process (Figure 9.1)
- Guidelines for motivation (Section 9.1.3)

Background reading

- Motivation theories (Section 9.1.2)
This topic will also be covered in the module in organisational behaviour
- Theories of leadership (Section 9.2.3)



Useful website

www.teamtechnology.co.uk/leadership-qualities.html

7.2.2 Communication

The ability to communicate effectively – verbally and in writing – is an important competence of the leader. Learning the skills to do public speaking and write clear and precise messages to staff, formally and informally, can distinguish leading managers from those with lesser skills. However, there is more to it than skills. – The inherent traits of effective leaders are to:

- Communicate in the right way at a particular time
- Inspire confidence
- Allay fears and insecurities
- Build support for a vision
- Understand their audience are not easily developed

Leadership and effective communication require high emotional intelligence and excellent people skills.



Refresh your memory about the nature of managers by again reading the unit on competence, roles and skills.

Good communication includes the ability to listen actively and empathetically, to be able to give feedback and to be able to construct, or formulate, the right understandable message.

A comprehensive study of effective communications falls outside the scope of this module, but you will learn more about that in other modules, e.g. on communications management and academic skills.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9:

Study Sections 9.3, 9.3.2 and 9.3.3 on the barriers to communication and effective communication to understand the role of communication in leading and managing.

7.3 Developing leadership potential

Recent developments in leadership thinking have focused on the following four growing new perspectives on leadership:

- Servant leadership
- Authentic leadership
- Transformational leadership
- Charismatic leadership

Charismatic leadership is not a new concept: Adolf Hitler was a charismatic leader, for example. However, the focus is now on the way in which leaders can create an atmosphere of change, inspire people towards a new vision, and stimulate and drive people for the benefit of the organisation. These new directions should be understood as part of the challenges of change and the changing nature of business and society, which include the prevalence of knowledge workers and highly educated staff, who demand being led in a suitable style. This includes a consultative and participative style rather than a dictatorial manner. Any manager leading a team should be aware of these concepts and try to adapt his leading in line with new thinking.



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9:

Sections 9.2.4 and 9.2.5

In Section 2.7 of the e-book, the challenges faced by managers in small businesses, particularly entrepreneurs, are highlighted. Although these are mostly in the area of resources and lack of knowledge of business, there is also the dimension of leading people under pressure and in times of difficulty. Situations in different organisations often not the same and the personalities and profiles of people differ. However, research has shown that certain personal qualities, management capabilities, ability to work with people, a high emotional intelligence and the ability to look ahead and anticipate the needs of people and the organisation are important in the process of developing the capacity and skills to lead.

New managers should not succumb to the 'old' idea that leaders are 'born' and cannot be developed. Developing traits such as motivation, productivity, social awareness, resilience, the ability to learn, humility, courage and respect for people may not be easy, but they are not out of reach. Any manager should have a philosophy of self-development and an awareness of potential weaknesses in his/her style of leading and focus to improve on those.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 9:

- The two case studies on the 'Ubuntu' way and leadership roles
- Do activities 9.4, 9.5 and 9.6
- Leadership future and characteristics (Sections 9.2.5 and 9.2.6)
- Developing leadership skills (Section 9.2.7)

Background reading

- Case study on Maxwell's laws of leadership
- Case study on 'the hermit'
- Leading and technology (Section 9.2.8)



Useful website

www.skillsyouneed.com/leadership-skills.html

7.4 Concluding remarks

In this unit, we discussed leading as a management task, keeping in mind that the study of leadership is a comprehensive undertaking. Communication and the ability to motivate people are two key dimensions of leading in the organisational management context. Styles of leading when managing were related to the importance of developing leadership skills. Recent developments in leadership thinking, such as transformational leadership, were introduced. It was emphasised that leadership skills and capacity can be developed despite a traditional view that leaders are 'born' and cannot be 'made'.

In conclusion, we have to keep in mind that management is dynamic and that opinions change and management 'gurus' come and go. For example, Fred David argues that there are really five key management tasks: planning, organising, motivation, staffing and controlling (David, 2013: 130). Following the classical view, motivation is part of leading and staffing is part of the business function of human resource management.

In the next units, we will focus, *inter alia*, on the nature, functions and challenges of business.



Test your knowledge

1. Discuss the five significant tasks of the leader and give examples to apply them to a sales manager in a new cosmetics distribution business.
2. Discuss the need for motivating staff and explain two key methods of doing it.
3. Elaborate on a few of the key reasons why leaders should be good communicators and explain in which areas or types of communication it is most applicable.
4. Construct a mini business management case to explain to a shareholder of the firm what the interrelationship between leading and managing is.
5. Explain each of the following in terms of delegation as one of the tool that a manager needs:
 - 5.1 The context of delegation
 - 5.2 Where it fits
 - 5.3 Why is it necessary to delegate
 - 5.4 The common mistakes in delegating
6. Indicate where do 'transformation' and 'crises' fit into the task of leading?
7. Explain the meaning of, 'emotional intelligence' (EQ) and indicate how that influences the capacity of managers to lead.
8. Comment on this saying, "leaders do the right thing and managers do things right".
9. Recent thinking on leadership reportedly focus on four styles of leadership. Name and discuss these leadership styles in detail.

10. Read the following scenario and complete the given task.

You are a new manager in a trucking company, but also a 'new leader' because you are one of a few people with a university qualification. People look up to you for informal leadership when relationships with management are tense. As office manager, you work with schedules, appointments, salaries and personnel management of drivers and maintenance staff.

The two owners of the company are also the CEO and COO. However, they are often absent and expect you to solve problems – which you feel you cannot solve alone – and keep the office and business going. You know that leading is only one of the four tasks that you have to perform, as manager. You feel that the CEO and COO expect too much of you. There is no harmony in the office.

Evaluate the growing (non-financial) difficulties in the business and draft a paper in which you prepare for a meeting with the CEO and COO.

Source: Dietrichsen, P. 2014.

Unit 8: Dimensions and environments of business



Unit 8 is aligned with Learning Outcome 4 and Assessment Criteria 4.1 and 4.2.

Learning Outcome 4:

Analyse the main functional areas of business

Assessment criteria:

- 4.1 Differentiate between production, services and knowledge-based businesses and/or organisations
- 4.2 Analyse different business environments



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 1, 3 and 15.

8.1 Introduction

In this unit, we will introduce the business enterprise, the environments of business and key dimensions of the business. The focus is on understanding the different areas of business and the way in which the firm relates to the industry in which it operates. An analysis of the environment in which the business operates will be done.

8.2 The enterprise

The enterprise is generally considered as an independent organisation that is functioning mostly in the market environment in a particular industry sector, or field of business. The aim is to generate revenue and profits for its owners.

There is risk involved and important business decisions need to be made about products and services, allocation of resources, strategy and issues of long-term survival. It should be noted that enterprises of which government is the owner, such as electricity generation, water provision, transport and telecommunications, are also businesses, but they function in a different market environment and matters of shareholding and profit are distinct. State-owned enterprises can be large and they can operate in strategically important sectors of the economy.

Some countries such as China, Vietnam, North Korea and Cuba have a much larger government role in their economies and in business than in developed economies. Despite this, China has grown to be the second largest economy in the world, overtaking Japan, while Vietnam has consistently achieved GDP growth of five percent (or more) each year in the last decade. In those two countries, the government and government agencies operate many businesses.



Essential reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapter 1:

Refresh your knowledge of country economic systems by reading Table 1.1.

8.3 Non-governmental organisations

There are also organisations that operate to provide a service to the community without seeking to make a profit, e.g. schools, community development organisations, infrastructure development, churches and clinics. These non-profit or non-governmental organisations (NGOs) occupy an important position in developing communities and sometimes receive financial subsidies from governments.

Enterprises can be divided into those operating in the following sectors:

- The primary sector (raw material, mining)
 - The secondary sector (processed material, manufacturing)
 - Tertiary sector (distribution, retail selling)
- (Sections 1.4 and 1.5 in Chapter 1)

There is a differentiation between those involved in products, services and information/knowledge. Products can be of a primary nature (gold mining) or a secondary nature (manufactured gold jewellery). Manufacturing involves the process of transforming inputs (material) into outputs using energy, labour and knowledge (as discussed before).

Services can be health services, banking and insurance, travel and tourism operators and hotel accommodation. A business can be mixed. It can be argued, for example, that the food served in a restaurant, in a hotel, is a product, or that the firm selling a car (a product) on credit (a service) covers both areas. Knowledge-based businesses, e.g. IT software development, business consultants, biochemistry and genetic food production, which are at the forefront of new technologies, can arguably be found in services and production.

For a business to be able to meet the needs of society (the goods that people want to buy), depends on the **factors of production**:

- Land (a place to operate)
- Capital (to start and operate)
- Natural resources (means of production for inputs)
- Human resources (labour)
- Entrepreneurship (knowledge and ideas)

To get all of these into an operating business requires management, an overall plan or strategy, a business model (how the business is put together and generates revenue), business plans, (how the elements integrate), information and a set of activities (systems and processes). There is a link between planning as a management function and the organisational strategy, consisting of a vision, a mission, goals and objectives, lower level plans and processes and values. An organisation also has an organisational culture that strongly influences how things are done and how people perform. (Refer to section 3.2.2 again).



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 1 and 3:

- Types of organisations (Section 1.4)
- Sectors of the economy (Section 1.5)
- Organisational environment (Section 3.1)
- Internal and external environments (Sections 3.2 and 3.3)
- Managing uncertainty (Section 3.4)
- SWOT analysis (Section 3.5)

8.4 The business environment

No business can operate in isolation: it operates within the context of its internal and external environment(s). The internal elements (or the micro-environment), as discussed in Section 8.2, can be good, average or poor, i.e. there can be strengths and weaknesses. The external environment includes the market (where products and services are sold), customers and suppliers, the broader economy and business conditions in general. There may be competition threats from other firms, or government regulations limiting certain actions. However, there may be many opportunities for new products and services and expansion of current market share.

Successful businesses are good at analysing (auditing or scanning) their internal and external environments. A useful tool for auditing or scanning the environment is the **SWOT analysis**. It can be used productively and creatively.



Study the following **example** of a SWOT analysis.

Table 3 – Framework of the SWOT analysis

Weaknesses	Strengths
<ul style="list-style-type: none"> • Insufficient capital • Untrained staff 	<ul style="list-style-type: none"> • Good product • Competitive price
Opportunities	Threats
<ul style="list-style-type: none"> • Few other firms producing this • Expanding markets • Good economic conditions 	<ul style="list-style-type: none"> • Cheap imports from China • Subsidies paid to EU firms in this industry

The analysis of the environment based on the SWOT model is not enough for a full understanding of the environment in which the business operates. Managers need to understand all elements in much more depth. Therefore, a systematic search for information and evaluation has to be conducted to be able to deal with uncertainty and risk to capitalise on opportunities and to comply with regulations.

The framework often used for this analysis is called the PESTLE. The acronym comes from the following sectors or dimensions of the environment: Political, economic, socio-cultural, technological, legal and environmental. STEEPLE is also used for socio-cultural, technological, economic, ethical, political, legal and environmental.

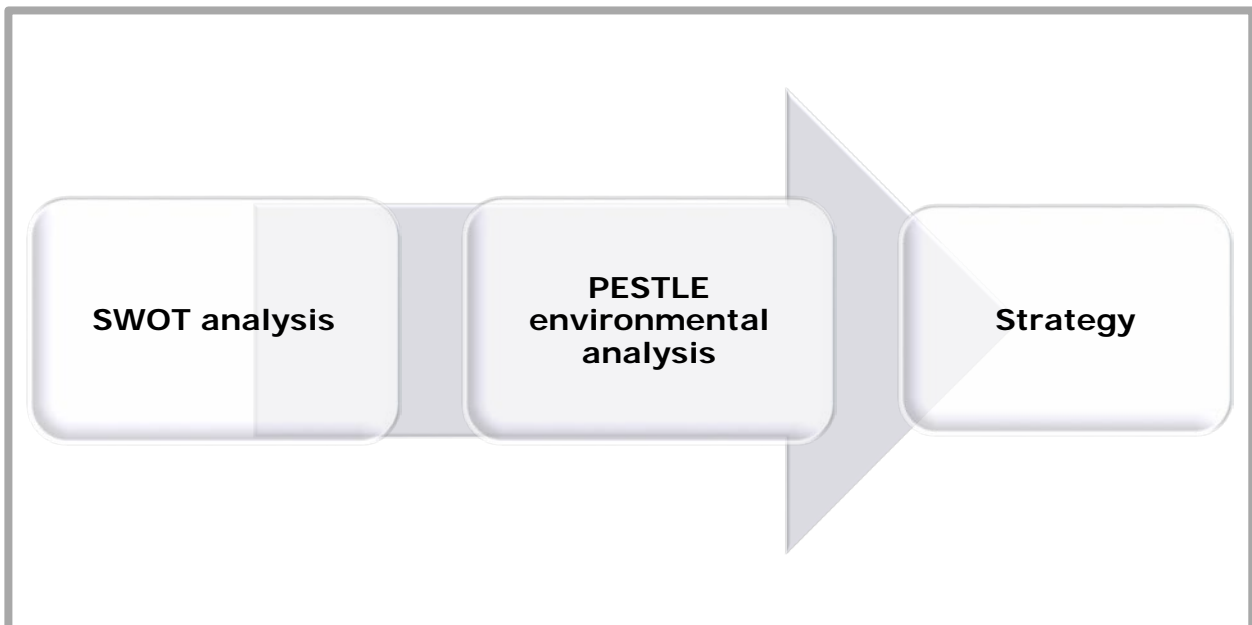


Figure 3 – Environmental analysis and organisational strategy

Source: Dietrichsen, P. 2014.



Useful websites

- www.hoovers.com
- <http://globaledge.msu.edu/industries>. (Michigan University)

8.5 Concluding remarks

In this unit, we introduced key concepts such as the enterprise, business sectors and industries, governmental context, products and services, factors of production, information and knowledge-based businesses and other dimensions of businesses. We also analysed the different environments of the business and the way in which these are scanned or audited. The models or tools to use for the audit were introduced and the point was made that these will be used in the study of several other business modules such as marketing and strategy and, most importantly, in the future work context.

In the next unit, the main functions of business their interaction with and dependence on one other will be discussed.



Test your knowledge

1. Business sectors can be divided into three sectors. Describe these sectors and give examples of South African firms in each category. List the websites of the firms that you use as examples.
2. Explain why non-profit organisations occupy an important position in many communities. Explain their typical relationship with government.
3. Discuss one key impact that organisational culture has in an organisation.
4. Services and production are two main areas in which businesses operate. Give an example of an industry of each and a known South African company in each. Is there any fundamental difference in what their activities entail? Explain/motivate your answer.
5. You have been hired as a consultant to assess the construction business at the Medupi power station project in the North West province. Conduct an elementary SWOT analysis based on known information and what you can find in news media and on websites about the project.
6. After your success at the Medupi project, you are hired to assist People's Bank to evaluate its situation. Explain to the managers, in detail, what information you would need to be able to undertake a SWOT analysis.
7. You need to explain to a new member of the Board of your import and export business what the PESTLE model aims to achieve and what the elements mean. Elaborate on any example that applies to the model and indicate where it fits into business management.
8. Discuss 'managing uncertainty' as a management and business challenge.
9. After ten years as an accountant, with experience in the clothing and fabric retail business in the Johannesburg area, you wish to start your own business, with a partner. Create a draft business model and do an initial SWOT analysis of the new business.
10. Describe the concepts of micro, market and macro-environments. Apply the description to examples in an import/export business.

Unit 9: Functions of business



Unit 9 is aligned with Learning Outcome 4 and Assessment Criteria 4.3 and 4.4.

Learning Outcome 4:

Analyse the main functional areas of business

Assessment criteria:

- 4.3 Explain the interrelationship between the main functions in a business such as production, finance, marketing and human resource management, and support functions
- 4.4 Discuss the concepts and nature of core business, operations and strategic management



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 11–15.

9.1 Introduction

In order to work towards its vision and to achieve its goals, the operation of a business should be managed in a coordinated way. Several complex business functions and associated tasks must be managed in an integrated manner.

Tasks are the specific activities that individuals, e.g. accountants as well as groups, (the accounting department doing 'bookkeeping') perform, while a *function* is a set of related tasks performed with a specific goal in mind, e.g. the financial management goals. Examples of functions are production, marketing, human resource management, finance, research and development (R&D), public relations or communications, information technology and supply chain/purchases. Some functions are given different names by different organisations, e.g. public relations may be public affairs, stakeholder relations, customer relations management or external affairs.

In this unit and in this module in general, we focus on understanding the nature of business functions and the way in which they interact and depend on one other. Each of the main functions will be studied in detail in other modules, e.g. in Marketing Management and Human Resource Management.

9.2 The key functions of business

In order to understand the interrelationship of business functions, we need to analyse the main elements of these functions; i.e. what they are and what they do. Table 5 summarises the main dimensions of the functions that are performed in a (but is not exhaustive):

Table 5 – The main functional areas of business and tasks

Functions	Main dimensions and tasks
Operations	<ul style="list-style-type: none"> • Planning production, machinery, materials and tools • Purchasing, transport and warehousing of raw materials and finished products • Distribution of products (supply chain management) • Manufacturing, i.e. operations management • Quality control, problem-solving, staff training, control • Research and development of new or improved products (innovation) • Costing (calculating costs) of the process and products
Marketing	<ul style="list-style-type: none"> • Market research, environmental scanning and market analysis • Planning marketing strategy and sales tactics • Decisions on PPPP (product, price, place, promotion), i.e. working with production to coordinate what products, at what price, to be sold where, and how to promote the product • The marketing mix: this process is somewhat different when a firm offers services but the principles remain the same • Sales planning and operations • Advertising, promotion, publicity, shows, social media
Finance	<ul style="list-style-type: none"> • Obtain and manage capital, e.g. shares issues or loans • Manage credit and relations with the bank • Budgeting and budget expense control • Keeping records to comply with laws (accounting) • Arrange for auditing and submit annual statements to shareholders and the regulator (government) • Advise managers on cash flow and costs and other financial management functions • Advise management on financial aspects of management, e.g. expansion, investments, cost of new business, etc.
Human resources	<ul style="list-style-type: none"> • Plan labour supply, i.e. analysis, recruitment, selection • Induction and training of new staff, continued training • Design systems and assist line managers with performance management • Personnel administration, i.e. salaries, leave, medical • Manage resignations, terminations, downsizing

As indicated earlier in the Study Guide, there are also support functions to ensure smooth operations, such as information technology – access to the Internet, website administration, computers – building administration, communications with stakeholders, public relations, internal communication with staff and transport. All these functions depend on one other to reach organisational goals. Perhaps the most important functions are operations – i.e. production and the general management function – which include managers who strategise to ensure the survival of the firm, formulate strategy and manage implementation of strategy, lead and motivate people at all levels in the organisation, and use their knowledge and skills to integrate operations successfully.



Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*:

- Part 4, overview of Chapters 11 to 15
- Human resource management and provision (Sections 11.1 and 11.2)
- Human resource management process (Figure 11.1)
- Markets and marketing overview (Section 12.1 and Figure 12.1)
- Types/categories of products (Figure 12.3)

Background reading

The remaining sections of Chapters 11 and 12 are for background reading, as the content and concepts will introduce aspects of human resource management and marketing, which will be studied in other modules.



Useful websites

- www.successfactors.com (An SAP company providing strategy tools)
- www.learn4good.com
- www.StrategyDynamics.com



Consider the **following** examples of a product, a service and a mixed business.

1. The business model of import, assembly and manufacture of products is common in open economies. Firm XYZ imports components from Japan for truck gearboxes, assembles these at its plant in Durban and manufactures complete differentials – all of which are sold to truck manufacturers.
2. A recently qualified dentist borrows money and opens his own practice. He performs a (professional) service and operates a business that he must manage.
3. After some years as a staff member at a large pharmacy, Patricia, a qualified pharmacist, opens her own pharmacy and has several employees. They sell medicine and cosmetics and operate a clinic for vaccinations and medical advisory services. She is also qualified to mix and sell her own brand of cleaning materials. She effectively operates a retail business, a small manufacturing operation and provides a service, all of which she must manage in a diversified business.

9.3 Integrating functions and their interrelationship

Following the discussion on the various aspects of the four main functions of business and your reading of the indicated sections in Chapters 11 and 12, the focus is now on the overall business process and their integration. Keep in mind that a business is dynamic and that many activities and processes occur simultaneously. There is rarely a fixed sequence of events or activities, but for understanding the process of business, it can be seen as a following series of steps in the following scenario:

- An entrepreneur conceives an idea, sees an opportunity, plans and undertakes research.
- A business model is planned and a business plan is finalised.
- He sources capital, finds a partner or issues shares to obtain capital.
- The business is established (registered), staff and space are hired.
- Raw material, machinery, tools, computers, are bought.
- Operations produce products or services.
- Products and services are marketed in line with strategy.
- Products are delivered to customers, or services are conducted.
- Warehousing and other supply chain tasks continue.
- Revenue is received from sales and suppliers are paid for material.
- Accounting of all financial aspects takes place every day.

- Decisions about repaying loans to bank are made by managers.
- Feedback is received from customers about product and service quality.
- The quality of product is improved and business grows.
- After some years, the business makes profit and loans are repaid.
- A new manager is appointed, who decides to expand the business.
- He borrows more money, starts a new factory and sells new products.
- The world economy declines, sales drop, employees are retrenched.
- The manager resigns; some factories close and he cannot get more loans.
- The business cycle goes downwards; the market is saturated and the firm closes.

The above scenario could also have had a more positive outcome. The business may have followed different strategies and pursued different objectives in different markets, shown better leadership and more integrated and coherent operations management, leading to more growth and expansion, greater profits and long-term survival. In the above scenario, they may have had a poor understanding of the market, based on superficial market research, leading to the wrong products being produced and marketed in the wrong markets at the wrong price. Revenue declined and managers were unable to formulate and decide on a survival strategy, leading to decline and failure. Failure in one area can lead to failure in another area, which results in general decline and failure. Naturally, the role of management in this is fundamentally important.

Essential prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*.

Chapters 13 and 14:

- Basic concepts in finance and the place of finance in the business (Sections 13.1 and 14.2)
- Typical organisational chart (Figure 13.2)
- Introduction to and nature of operations management (Sections 14.1 and 14.2)
- The position of operations management in the business (Figure 14.1)
- Demand management and forecasting (Section 14.7)



Background reading

Read the remaining section of Chapters 13 and 14 as a general introduction to finance and operations management, which will be studied in more detail in other modules. You should read these to enhance your understanding of business processes and challenges.

9.4 Managing the business operation

This module was started by examining the nature of management, in particular the managing of a business. In Units 8 and 9, we discuss the nature of business; business functions and related tasks in particular.

At this point, we will focus will on the need to have coherent management because of the complex and interrelated nature of business functions and processes. This section will conclude the initial study of business management by focusing on organisational strategy and related aspects. In the discussion on planning and other management tasks, the importance of strategy was clarified and that organisations measure their success against their broad goals and lower level objectives and targets. This is also part of the control task.

Strategic management in an organisation requires all managers to do strategic thinking, before and during the process of strategy formulation and implementation. A business may not be able to survive beyond the medium term of three years, if the owners and managers do not think long-term and strategically – i.e. making sure that they relate all the internal and external issues of the firm to the operational environment and all its implications, especially longer-term anticipation of product issues and market forecasts.

In Chapter 15, the strategic management process is explained (vision, mission, goals, objectives) and the key steps of formulation, implementation and feedback/evaluation clarified.



Refresh your memory by reading Section 3.2.2 on the microenvironment.

There are typically the following four levels of strategy:

- **Corporate** – including direction, core business, competitive advantage
- **Business** – how it will compete in its industry and its product area
- **Functional** – marketing, financial, product, efficiency, etc.
- **Global** – where relevant: if and how to engage in international business

These dimensions or levels of strategy will be studied in more detail in the strategy module and in marketing and other modules. For the purposes of this module, you should be able to describe the various concepts, levels and processes. You should also be able to the link with the four management tasks, the successful conduct of the business and the coherent integration of business functions and tasks. You should be able to apply these aspects to a scenario or case study.

9.5 Concluding remarks

It is important for the business student to study the functions of business. Many of these concepts will be required as part of studying other modules at a higher level, while it will be a reality in the work environment later in life.

In this unit, we introduced finance, marketing, production and human resource management as the key functions of business. We mentioned support functions and we discussed the interrelationship with operations management, strategy and strategic management. We also discussed possible business scenarios to enhance understanding of the dynamic and challenging nature of business.

In the next unit, we will focus on the important concepts and practices of governance, compliance and sustainability.



Test your knowledge

1. Describe, in your own words, the operations, marketing and finance functions of a business.
2. Explain three of the main elements of the human resource management function.
3. Building on this unit and earlier units, describe three key elements (parts) of strategic management and indicate their purposes in a business.
4. There are said to be four levels of strategy. Explain these levels, with an application example in any business context.
5. De Beers is a major South African mining company with many mines and international operations. Relate each of the strategy levels to this company.
6. At the stage in the life cycle of a business, where it becomes profitable, i.e. revenue is more than expenses, and taking into consideration debt, explain a few options that management may have about further actions.
7. Marketing staff is responsible for getting products to the market, for promoting the brand of the firm and for planning marketing strategy. Explain, with examples, the way in which marketing and operations relate to each other.
8. Finance managers have a responsibility when the firm starts, when it grows and when it struggles. Explain each of these stages, giving some detail and examples.

9. HR managers form part of the support function in most firms, i.e. not part of core business. Explain the importance of the HRM function, if some consider it 'only' a support function.

Read the scenario and complete the tasks.

You are a junior manager in the marketing department responsible for one region of the firm's market. During a meeting of all marketing and production managers, the manager responsible for logistics and supply chain operations informs the meeting that one of the firm's three main products must be selling badly, because there is a huge stock available in the warehouse. It 'moves' much slower than other products. The marketing manager responds by saying that the production manager has miscalculated and produced too much. The production manager becomes angry, saying that marketing is a mess and that they have no idea of what the market wants. To calm the angry managers, the COO requests you as the new manager from outside, to make an objective analysis of the problems the firm may be facing.

Source: Dietrichsen, P. 2014.

Give an assessment of marketing and production shortcomings, as well as the possible financial implications. At least eight issues can be identified. Formulate your analysis and conclusions on the likely issues.

Unit 10: Governance, compliance and sustainability



Unit 10 is aligned with Learning Outcome 5 and Assessment Criteria 5.1 and 5.2.

Learning Outcome 5:

Assess contemporary aspects of governance and compliance in the management of a business

Assessment criteria:

- 5.1 Describe the regulatory environment and the concepts of good governance and compliance
- 5.2 Explain the contemporary issues of sustainability and the ecological environment and their impact on management and business



Prescribed reading

Botha, S. & Musengi, S. (eds.) 2012. *Introduction to Business Management: fresh perspectives*. Chapters 2 & 4.

Chapter 2:

- Section 2
- Table 2.3

Chapter 4:

Section 4.4.4

Section 4.4.5–4.4.7

10.1 Introduction

As we mentioned before, businesses are faced with the challenge of scarce and costly resources; particularly at the SME level. In fact, Economics is the study dealing with the reality of scarce resources in an economy, not unlike the situation at the enterprise level. We also know that business, in general, faces strong competition from local and international competitors.

In the face of scarcity, competition and the expectation from shareholders to receive dividends from the profit of the firm, managers are under pressure to reduce the costs of doing business for short-term profits and long-term survival.

Against this background, managers need to be aware of the key elements of doing business: the need to comply with laws regulating business operations, the need to be mindful of ecological environmental issues and the

requirements of good enterprise management (governance) in accordance to widely accepted practices and principles.

10.2 The regulatory environment

Business must conform to legislation on the legal form of ownership. The **Companies Act 71 of 2008** determines the nature of a company as a public or private company. Public companies have members of the public as shareholders, while the private company has a limited number of shareholders. In both cases, the shareholders are the owners and the firm has its own juristic person, separate from those of the owners, and it is liable for tax and other obligations. The purpose of the firm is set out in the memorandum of association and is registered for that purpose.

All businesses are subject to several laws and related regulations on e.g. the following (Table 6):

Table 6 – Selected regulatory sources

Regulatory topic	Law/Source
Taxable income for companies and owners taxable for partnerships Value Added Tax (VAT) Income tax deductions of staff	www.sars.gov.za/TAX
Health and safety of staff, customers and visitors to sites	Occupational Health and Safety Act 85 of 1993
Minimum and fair employment conditions for staff and gender equality	Basic Conditions of Employment Act 75 of 1997 www.labour.gov.za
Compliance with local authority (metro) rates and taxes; bylaws, regulations and provincial laws on vehicle safety, driver's licences, etc.	www.lexisnexis.co.za
Respect for registered trademarks, patents and other intellectual property rights	<ul style="list-style-type: none"> • Patents Act 57 of 1978 • Trade Marks Act 194 of 1993
Privacy and security of customers in case of e-commerce websites and consumer protection	<ul style="list-style-type: none"> • The National Consumer Protection Act 68 of 2008 • The National Credit Act 34 of 2005
Polluting the environment and harming the safety of the community	National Environmental Management Act 107 of 1998

These are only the main areas of expected regulatory compliance of the organisation. While there is separation between managerial control and shareholder ownership, and the company can be sued for any unlawful activities or failures to comply with laws, it should be kept in mind that all these parties may be held responsible for the actions of the organisation. Shareholders are represented by the Board of Directors, which oversees the managers. There has been a trend in the courts to hold directors and senior managers responsible for company decisions and acts.

In order to ensure that it complies with the regulatory framework, a company must:

- Keep accounting records in accordance with generally acceptable accounting practices (GAAP) and international financial reporting standards
- Publish its annual audited statements, e.g. balance sheet of assets and liabilities, declaration of a profit based on the statement of income and expenses and, in the case of a public company, a declaration of dividend

The annual financial statements will be presented to the shareholders at an annual general meeting. Should the shareholders not be satisfied, they may register their displeasure with the directors and management by voting to change the Board. These practices of good governance are amended from time-to-time by regulators or by general agreement among companies and their representative organisations, such as chambers of commerce and industry, chambers of business or the Johannesburg Stock Exchange.

Another dimension of compliance is that companies may not use company money for the private purposes of shareholders or managers. They may not use money for illegal activities. They may not use it for bribery and corrupting officials or members of government. Misuse or theft of company money may lead to fraud charges. Auditors are expected to check for aspects that do not comply with good governance principles or the regulatory framework.



Example

In the last two decades, the United States of America, e.g. Enron and WorldCom and South Africa, e.g. Masterbond and LeisureNet experienced significant business failures relating to poor management, control, governance and unethical issues. The United States responded by passing the Sarbanes-Oxley Act, which significantly improves and tightens the responsibilities of Boards, directors and managers of businesses.

In South Africa the King Reports I and II of 1994 and 2002 respectively, headed by Judge Mervyn King, achieved the same, with King II identifying seven principles of good corporate governance (Dr Rachel Maritz quoted in Goldman *et al*, 2010: 38). These principles can be summarised as follows:

- Corporate discipline is required from managers
- Transparency must allow meaningful analysis of financial status and corporate actions
- Independence of institutional role players ensured by control mechanisms in place to prevent abuse and misuse
- Accountability of all decision-makers in the firm
- Responsible management with penalties for incorrect behavior

- Fairness in the company with respect to interests of different stakeholders, e.g. small versus large shareholders and future plans
- Social responsibility awareness and priority to ethical standards

The Third King Report of 2009 and the changed Companies Act, as well as a range of other changed legislation, are all aimed at preventing more cases of failed corporate governance.

10.3 Corporate social responsibility

In this section, the responsibilities of business in the context of social responsibility will be discussed, i.e. the pressure that society exerts on business organisations to act responsibly and legitimately.



Corporate social responsibility (CSR) can be defined as the “*broad concept that businesses are more than just profit-seeking entities and, therefore, also have an obligation to benefit society*” (Du Toit *et al*, 2007:111).

This entails the need for business to consider the implications and consequences of their decisions and actions for the broader society and not only to seek maximisation of profit and shareholder value. There should be a balance between business’ own interests and the interests of society as a whole. Consumers sometimes accuse firms of misleading advertising, exploitation of the consumer or damaging the environment.

This is partly the issue of consumerism, i.e. the social, moral and economic pressure that society exerts on firms to respect their right to safe products, to be informed properly, to have freedom of choice and the right to be heard (Du Toit *et al*, 2007:110). The dilemma for the business is that consumers expect affordable and safe products and they expect business not to pollute the environment and practise good CSR, but they are not keen to contribute by paying higher prices for products or services. (This ethical issue falls outside the scope of this module).

Some of the CSR elements are the social responsibility to:

- Employees and managers
- Customers, consumers and potential customers
- Owners, investors, shareholders, financial institutions
- The general public, including the physical environment
- Local community, neighbours, region
- Competitors (unfair competition)

Globalisation is a phenomenon that is often criticised. Critics argue that global businesses become too big, that they exploit consumers, that they contribute to the growing inequality between the rich and poor and between rich countries and poor countries; that they exploit cheap labour and

contribute to impoverish communities further. It is also argued that these multinational companies exploit their dominant position in markets and squeeze enterprises from smaller countries out of many markets, especially the more lucrative ones. Consequently, the argument goes, these larger firms have an important social responsibility towards communities everywhere.



The concern becomes understandable when we consider the following **examples**:

- BP in the United Kingdom is the size (in revenue) of the GDP of South Africa
- Walmart in the United States is the size of Argentina
- Toyota is the size of Egypt
- Royal Dutch Shell (the largest firm in this example) is the size of Norway (US\$500bn GDP)
(Wild & Wild, 2014: 30 & *Fortune*, 23 July 2012)

The opposite argument is that globalisation helps to spread technology; that foreign direct investments (FDI) helps many firms in many nations; that free trade helps countries to export; that imports give people access to products such as medicines and IT and that internationalisation of economies brings people closer together and brings opportunities to all across the globe.

There are clearly some advantages and disadvantages of globalisation, but the argument does highlight the importance of perceptions in communities and the need for firms with international business involvement to be alert to the CSR opportunities to assist and uplift communities. The key element of globalisation is that it has created greater interdependence among economies, business and institutions (Wild & Wild, 2014: 30–31).

Examples of ways in which CSR can be practised can be found on the websites of many firms, some of which use it as a public relations exercise.



The following are **examples** of ways in which businesses can assist communities:

- Building roads and other infrastructure in the community area when building a new factory or plant
- Improving roads when a firm's business will add to traffic congestion
- Giving grants and interest-free loans to micro enterprises in the community of a firm's operations, e.g. near a power station
- Investing in technology to reduce air pollution, e.g. at steel factories
- Repair land after open-pit mining or dirty coal mining
- Provide study loans and subsidise university education to children of staff
- Setting up an educational fund for children of the local community

- Building a clinic and funding medical care for communities where the firm causes pollution, noise, dust or all-night activity
- Not polluting water and cleaning



Useful websites

- www.csr.com
- www.csrwire.com

10.4 Contemporary CSR issues in South Africa

In South Africa, there is widespread concern about the proposed exploiting of natural gas by means of **hydraulic fracturing (fracking)** in the Karoo area. The concern is that the use of water pumped deep underground, under high pressure, would negatively affect the eco-system, particularly underground water sources in a dry area.

After much study and consultation, the Cabinet has approved the gazetting of draft technical regulations on petroleum exploration and exploitation by means of hydraulic fracturing. The government argues that the potential of shale gas exploration provides an opportunity for South Africa to produce its own fuel and could provide huge impetus for the industrialisation of the economy. The draft regulations prescribed international industry practices and standards to enhance safe exploration and production of shale gas and would ensure that fracking was conducted "in a socially and environmentally balanced manner". Hydraulic fracturing involves the extraction of gas trapped underground by using pressurised liquid to fracture rock.

Opponents of the process argue that the economic benefits of accessing previously unavailable energy sources are outweighed by the potential environmental impacts, including contamination of ground water. According to petroleum industry estimates, 2.5 million hydraulic fracturing jobs had been performed on oil and gas wells worldwide by 2012 – more than one million of them in the United States. According to recent estimates by the US Department of Energy, South Africa, has the eighth-largest shale gas reserves in the world at 390-trillion cubic feet (*Cabinet approves draft fracking rules, 2013*).

Other cases of concern are the proposed **mining of coal in the Kruger National Park and the Mapungubwe World Heritage Site** in the Limpopo province. The concern is that mining would lead to widespread environmental degradation and water pollution. A stakeholder group – consisting of the Endangered Wildlife Trust, the Mapungubwe Action Group, the Office of the International Coordinator for the Greater Mapungubwe Transfrontier Conservation Area (GMTFCA) and Peace Parks Foundation – objects to all industrial activity in that part of the sensitive Limpopo Valley without an

approved integrated regional development plan (*Coal mine may threaten Mapungubwe World Heritage Status*, [2013]).

The underlying concern is also that the companies involved will not take their CSR seriously. Corporate environmental management plans, assurances of ecologically sensitive operations and water usage feasibility studies, are suspected of being aimed at placating pressure groups and the public. The BP oil spill in the Gulf of Mexico (United States) in 2010 is seen as a typical example of a corporation putting profit before social responsibility (*BP accused of misleading govt during Gulf oil spill*, 2013).

10.5 Sustainability and ecology

Since economies and many types of businesses depend on the availability of scarce natural resources for their operations, and many manufacturing operations have by-products from their processes that may be dangerous or polluting, increasing industrialisation brings unexpected, or predictable, environmental consequences. Even farming for food can result in pollution from fertilisers, fuel, pesticides and animal waste. A further consequence is that many operations lead to the depletion of resources, resulting in lowering in air quality, water contamination, soil erosion and poorer capacity of soil to produce food.

10.5.1 Sustainability

Sustainability is the concept that describes the effort across the world to counter the above problems and the effect of growing populations and megacities. At the global level, there are intergovernmental and industry agreements, as well as plans and projects to achieve sustainability, while every nation has to undertake research and take steps to achieve these objectives locally. For example, farmers in developing countries are paid higher prices for their products (coffee, cocoa, etc.) so that they would practise organic farming (no pesticides and chemical fertilisers), which would enable them to farm for decades and sustain an income without harming the soil.

10.5.2 Ecology

Ecology, which essentially involves the relationship between living organisms and their environment, refers to the surroundings in which an organisation operates, including urban areas, air, water, land, natural resources, flora, fauna, humans and their interrelations. This is also an area in which the International Organization for Standardization (previously known as the International Standards Organization) is active. Sometimes called the 'health of the planet', a focus on saving the environment from degradation and damage has been associated for decades with the Green movement.

10.5.3 The Green Movement

A recent focus of the Green movement, governments, the United Nations and many other organisations is the reduction of greenhouse gases, e.g. harmful emissions from carbon fuels.

This has been in accordance with the United Nations Convention on Climate Change (UNCCC) which led to the Kyoto Protocol, the Copenhagen Accord and COP15/2009 held in Durban, all aiming to reduce the harmful effect of fossil fuels and other global warming emissions, and to find energy-efficient technologies and practices.



Example

An independent Canadian organisation, Corporate Knights Inc. researched the 'most sustainable corporations in the world' and published the list of the Top 100 and Top 20 in 2011. Some of the top firms were (1) General Electric (USA), (5) Nokia (Finland), (6) Siemens (Germany), (7) Unilever (UK), (8) Vodafone (UK), (14) Toyota (Japan) and (20) Royal Dutch Shell (UK) (www.global100.org).

Note that the ISO is also engaged in such evaluations as part of its ISO14000/14001 certification.

Apart from being rated, a company should be "green for the following reasons:

- Public opinion demands that firms conduct business in a way to preserve the ecology
- Consumers and pressure groups push for safe and recyclable packaging
- Governments have adopted laws to force firms through e.g. carbon tax
- Investors and lenders insist on responsible practices from firms borrowing money, supported by advocacy groups
- Firms with a poor record may be avoided by suppliers and customers
- Lawsuits and heavy fines are a deterrent to poor practices
- Shareholders and stakeholders expect pro-active and not re-active policies and introduction of technologies (David, 2013: 347–351)

Governments pass laws to penalise businesses that allow their factories to pollute the air (e.g. Eskom, Sasol and steel manufacturers), while car manufacturers have to reduce harmful emissions from the cars they build. Mines need water permits and wastewater disposal plans to be able to operate. Factory waste may not be pumped into streams and rivers. Municipalities must treat sewage and wastewater before allowing that water to return into the ground or rivers. Pharmaceutical firms spend large amounts of money on research to assist farmers to reduce the use of pesticides and to use insects to fight pests. All of these are examples of government and business efforts to ensure sustainability of future food production and quality of life.

We can see that CSR in the area of sustainability and ecology is an important responsibility that is increasingly associated with the values that managers and organisations adopt and demonstrate.

In this module, we discussed the issues of sustainability and CSR briefly to introduce business students to these important contemporary issues in business management. The topics, which can be researched in detail on relevant websites, form the subject of further study in modules on operations, marketing, ethics and CSR.

10.6 Concluding remarks

Corporate governance refers to the dimensions of an organisation's management, control, establishment, compliance with laws and regulations and behaviour according to acceptable ethical standards. It also includes sound administration of assets, debt, obligations, interests, operations and reporting of financial status. This is closely linked to the broader responsibilities of a business towards its stakeholders and shareholders.

In this unit, we explored this difficult and somewhat sensitive subject at an introductory level. The issues of corporate social responsibility and sustainability – the way in which a business operates with full cognisance of its responsibility to the wider community and especially an understanding of the long-term ecological impact of its operations and policies – were discussed. The ways in which business can act and engage society to make a positive contribution were examined.

This concludes the introductory study of management and business, including Business Management. Studying other modules will enable the student to enhance understanding of the complex interrelationship of the functions of business and the tasks of the manager and will assist you to develop skills in this area.



Test your knowledge

1. Describe the concepts of corporate governance and compliance.
2. Explain the purpose and results of the King Reports in South Africa.
3. Discuss the meaning of corporate social responsibility (CSR) and its implications in the South African corporate environment.
4. Analyse the value of a business being involved in CSR and point out the risks of a company ignoring its social responsibility.
5. Visit the websites of Unilever in South Africa, Anglo American and Coca Cola in South Africa. Draft a report in which the main elements of their CSR involvement with the community are summarised and key elements highlighted. Do you think their involvement is suitable? Motivate your answer.
6. Compare the above findings (Question 5) to the information that you find on the websites of Johnson & Johnson, Starbucks and Timberland.
7. Synthesise the main objectives and purpose of the various international accords on climate change. In your opinion, what can be described as their main failure?
8. In your view, what are the main challenges or difficulties that we face in South Africa in the area of ecology and environment? What could be the economic and business dimensions of these challenges?

Glossary

Acquisition	When one business buys another or acquires a controlling share in another, with or without mutual consent
Audit	Inspection, correlation, verification of business accounts
Balance sheet	A financial statement showing assets and liabilities of a firm or individual
Barter	An exchange of goods or services for other goods or services without the use of money
Brand	Particular name or characteristic that identifies a product It may be a trade name or registered trade mark
Bribery	A corrupt business practice of offering or demanding some form of payment for a permit, licence, contract or service
Business ethics	Values, beliefs and principles that shape business behaviour or expected behaviour
Business model	A plan according to which the business operates and generates revenue
Capital	Funds needed to start and maintain a business
Consumer/client	A buyer or potential buyer of a service or product
Competence	The quality and ability to successfully achieve objective
Cost	An expense relating to a business activity or purchase
Copyright	Established ownership of a written or otherwise recorded creative work
Dividend	Payment of part of profits to shareholders
Efficient	Doing something competently, without waste or unnecessary cost
Effective	Doing something productively or capably, even if at 'all cost'
Equity	The shares of a company or other business belonging to shareholders or other owners
Fiscal policy	Government policy on tax rates and government expenditure to impact on demand for goods and services
Foreign direct investment (FDI)	Investment by a foreign firm or person into productive economic activity in another country
Franchise	Legal status of a business where one business (franchiser) licenses another firm (franchisee) to use its brand and supplies it with goods and assistance
Free trade	Imports and exports among countries without barriers
Gross Domestic Product (GDP)	The sum of the inland/domestic economic activities of a country calculated using a standardised method
Global	Worldwide
Holistic	Doing something with all relevant aspects considered and integrated, e.g. in holistic medicine
Human resource management	The process of staffing an organisation, managing and administering staff salaries, training, productivity, etc.
Industry	A grouping of businesses operating in the same economic sector and producing similar products and services
Industrial property	The trademarks and patents that individuals or organisations register as their intellectual property
International business/trade	Commercial transactions and other business crossing borders of countries or taking place in more than one country

Joint venture	Separate companies or individuals working together on a joint project for which a new entity is created
Limited liability	When the owners of a company are not liable for the debts of the company for more than the amount they have invested in it
Liquidity	Cash, savings and investments, bonds, shares that owners can easily convert into cash
Logistics	Management activity that integrates the actions of suppliers, warehousing, distribution of products for flow of goods through a firm (see Supply chain management)
Management contract	An agreement in terms of which one business agrees to provide management services and expertise to another
Market	People or groups with specific needs and wants for goods and services and ability and willingness to buy
Marketing communication	The process of sending promotional messages about products and services, and supporting information, to potential and target markets
Market research	Scientific method of systematic gathering of data/information about needs/wants and capacity of markets
Monetary policy	Policy of a Central/Reserve Bank on interest rates
Multinational company	Business with operations and interests in several countries
Patent	Formal legal registration and document giving inventor exclusive right to use idea, technology, products, etc. for a certain time
Private sector	Segment of the country's economic environment and activities pertaining to independent non-government ownership
Privatisation	The practice of selling government-owned economic resources/corporations to private shareholders/owners
Profit	Amount of money that income/revenue in a firm exceeds expenses
Publicity	Communication about a company, product or brand to promote its interests – normally unpaid
Public relations	Function within an organisation evaluating public opinion and media about attitudes towards a firm or product. PR staff work to foster goodwill towards a firm and products
Retailer	Business selling products directly to the public
Revenue	Income from a business activity
Synergy	The potential ability of individuals or groups to be more productive or successful as a result of working together, rather than separately
Stakeholder	A group or an individual that has an interest in, or is affected by the actions of an organisation, or its policies
Stock	Shares/partial ownership of a company (see equity and shares)
Strategy	Systematic thinking, planning and execution of direction, goals, actions, systems to achieve organisational objectives
Subsidy	Government or other financial assistance to domestic producers to protect or develop an industry or create/protect employment
Supply	Quantity of goods or services that producers are willing to manufacture/provide at a specified price
Supply chain	A group of firms and other role players supplying a firm with material and goods, logistical management of those, distribution to sellers and agents and assisting to add value to raw material
Subsidiary	Facility or operations owned by a parent or controlling company
Subsidy	Budgetary or other financial assistance paid by government to an institution or individual to support development or survival

Trademark	Registered property rights of a person or organisation in the form of words, symbols or figures
Turnover	The value of goods or services sold by a firm in a given period
Value chain (analysis)	Stages/chain of company activities of core, primary or support nature that creates or adds customer value to products or services, e.g. refining raw material into a final product
Venture capital	Investors who provide/lend capital to a borrower or a new business in the belief that the firm will experience rapid growth and profitability. It may receive equity in the firm or high interest
Warehousing	Physical receipt, ordering, storage and distribution of material or finished goods (see supply chain and logistics)

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