

BUSINESS MANAGEMENT IB



Study Guide for BSM1602

DEPARTMENT OF BUSINESS MANAGEMENT
PRETORIA

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IMPORTANT INFORMATION:

Please visit the myUnisa website and activate your myLife email address. Ensure that you have regular access to the myUnisa module site as well as your e-tutor group site.

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1 INTRODUCTION

Dear Student

Welcome to the module Business Management 1B (BSM1602). We trust that you will find this module of Business Management interesting and of practical value. We are aware that, as a student, the circumstances under which you will be studying will not always be ideal, and we would therefore like to help you to complete this module successfully. To make your studies easier, and to help you share in our enthusiasm for this field, we urge you to read this study guide. You should also read through your Tutorial Letter 101. Refer back to these documents as often as you need to, throughout your studies.

As an adult learner in distance education, you have to take full responsibility for your studies. Your success depends entirely on you. However, please contact your e-tutor and/or your lecturer if you have any problems with this module. You will also be given the opportunity to interact with fellow BSM1602 students in the discussion forums on both the main site and the e-tutor site.

My contact details are given in Tutorial Letter 101 and you will receive information concerning your e-tutor later in the semester. We urge you to make use of the BSM1602 module website on myUnisa and participate in the discussion forums and online activities. We hope that you will enjoy this module.

Your lecturer

IMPORTANT

Visit myUnisa regularly, as important information will be communicated to you via announcements throughout the semester.

Please note the following basics concerning BSM1602:

- Read through the relevant study material (especially Tutorial Letter 101) and familiarise yourself with this module and the processes and procedures at Unisa.
- Your studies should commence the moment you receive your study material. Make time for your studies continuously throughout the semester, and keep to a study plan.
- Register your personal student email address (your myLife account on myUnisa) and access your emails regularly. Important notifications are forwarded to this email address only.

I trust that you will make the most of this opportunity to study business management. We wish you all the best with your studies.

Warm regards

Ms Magdel van Heerden
Primary lecturer for BSM1602

GENERAL INFORMATION

THE PURPOSE OF THE MODULE

The purpose of this module is to help you acquire the foundational concepts in Business Management and develop your understanding of the functions of Business Management. This module will also provide the foundation for all later modules in Business Management.

Before you start to study this module of Business Management 1B (Business Management for Entrepreneurs), you should first get a holistic view of the course. In this module, we will introduce you to some of the functions of a business. However, it is important that we first revisit the definition of what a business is. A business can be described as an independent institution established by an entrepreneur to make a profit by producing goods or providing services that satisfy the needs of consumers. Therefore, the entrepreneur identifies a consumer need and establishes a business in order to produce goods and/or provide services to satisfy that need. The motive for the entrepreneur's actions is to make a profit. Therefore, both the entrepreneur and the consumer benefit from the establishment of the business: the consumer is able to satisfy his/her needs, while the entrepreneur makes a profit.

Businesses generally consist of eight functions, namely, general management, operations, finance, purchasing, marketing, information management, human resources and public relations. These eight functions represent all the activities performed in the business. They also form the guiding principles of the textbook and account for the structure of the learning units in this module.

LINK TO OTHER MODULES

This module does not stand alone. It is an integral part of Business Management 1A. Therefore, the purpose and the learning objectives of this module are aimed at developing your expertise and abilities in the field of business management.

OBJECTIVES AND COMPETENCIES

Module outcomes

After completing this module, you should have the competence to apply business principles and skills to assist with the management of the different functions of an enterprise, or to conduct business with identified support.

EXIT-LEVEL OUTCOMES		SPECIFIED OUTCOMES	
1	Set up and execute business functions, using support/experts as required and available resources.	1.1	Use knowledge of business principles and analytical and planning skills to design and structure the enterprise according to business functions.
		1.2	Apply management skills to manage a business at an operational level.
2	Develop oneself for improved performance (engage in self-development).	2.1	Use scanning and decision making to identify required needs and support structures.

Assessment criteria

- Identify and demonstrate an understanding of the place, purpose and objectives of the functional areas of a business.
- Demonstrate an understanding of the business functions and relevant business principles.
- Analyse a business situation and apply the appropriate business principles to it.
- Demonstrate the ability to apply different operational skills in the different business functions.
- Identify and analyse information regarding the business's strengths, weaknesses, opportunities and threats to be able to make effective decisions.

Our assumptions

We also assume that you are competent in the following areas:

- You should be able to analyse and respond to a variety of texts.
- You should be able to learn independently in an open and distance learning context (ODL) with minimum support, and take responsibility for your learning.
- You should have a Senior Certificate or an equivalent NQF level 4 qualification.
- You should be able to read and understand legal documents, tutorial letters, textbooks and articles in business newspapers and journals which are all written predominantly in English.
- You should be able to communicate coherently and appropriately what you have learned in the language of instruction (English), at NQF level 6.

Framework of the module

LEARNING UNIT		CHAPTER IN THE PRESCRIBED TEXTBOOK
1	Introduction to business management for the entrepreneur	1
2	General management	2
3	The financial function	3
4	The marketing function	4
5	Operations management	5
6	The purchasing function	6
7	The human resource function	7
8	The administrative function	8
9	The public relations function	9

Composition of the study/learning package for this module

The study package for this module consists of this study guide and Tutorial Letter 101. You must purchase the prescribed book as soon as possible. The prescribed book is vital, because you will not be able to complete this module successfully without it.

Prescribed book

Please obtain the following prescribed book:

Business Management for Entrepreneurs
 C Nieuwenhuizen (editor)
 3rd edition, 2015, Cape Town, Juta
 ISBN: 9781485111825

COMPLETING ACTIVITIES, ASSESSMENT QUESTIONS AND ASSIGNMENTS

The best way to work through the prescribed book is to study one topic at a time. The assignment questions are also based on the different topics covered in the prescribed book.

Self-assessment questions

Self-assessment questions on each learning unit are available on myUnisa under the additional resources tab. The answers to these questions will also be available under additional resources. We advise you to complete these questions diligently, since they will prepare you for possible examination questions.

Assignments

By completing the assignments that appear in Tutorial Letter 101, you will develop a “feel” for the types of questions you can expect in the examination. The assignment questions will provide you with the opportunity to apply the theory to a case study or a practical situation related to a business. The answers and guidelines/feedback on each assignment will appear in Tutorial Letter 201. You should study these guidelines/feedback in preparation for any examination questions that may stem from the assignment questions.

The assignments, as well as the examination, comprise only multiple-choice questions. For every question there are four options numbered from 1 to 4, of which you must select only one. For example:

1. *When a passenger reaches his/her desired destination, the airline has transported the passenger. This transported passenger is seen as part of which component in the transformation model?*
 - (1) *input*
 - (2) *transformation process*
 - (3) *output*
 - (4) *client*

You cannot select more than one option. In other words, your answer will be option 1 or 2 or 3 or 4.

Sometimes the option that will earn you a mark is one that reflects an incorrect statement. You should be extra careful when answering such questions and not get confused and mark a statement that is correct. Please look at the assignments in Tutorial Letter 101. You will find the occasional question asking you to indicate which of the options is *wrong*.

In some questions, however, there will be several statements that could be correct. In such cases the statements will always be indicated by letters (a, b, c and d), and the answer will still be option 1, 2, 3 or 4, but these answers may refer to more than one statement. For example:

2. *Which of the following statements are correct?*
 - (a) *A business owned and managed by one person may be a private company.*
 - (b) *A partnership is usually limited to 20 partners.*
 - (c) *The owner of a sole proprietorship does not pay tax on his/her business's profits.*
 - (d) *A public company may not offer its shares for sale on an open market.*

Choose the correct combination:

- (1) *a b c d*
- (2) *a b d*
- (3) *b c*
- (4) *c d*

This question asks you to indicate which of the statements are correct. If you therefore think that statements b and c are correct, you will mark only option 3 as the correct answer.

In all of the examples above the question asks you to identify the correct statement(s). Sometimes the alternatives are a continuation of the stem. For example:

3. *The economic principle _____.*
- (1) *is an endeavour to achieve the maximum with the minimum*
 - (2) *does not apply to government organisations because they do not strive for a profit*
 - (3) *is mainly an indication of how low the operating costs were*
 - (4) *is always measured in terms of the business's profitability*

In an example such as the above you have to read the stem plus option 1, then you have to read the stem again plus option 2, the stem plus option 3, and so on.

There is one other type of question that some of you may find somewhat confusing. Here is an example of this type of question:

4. *Match the management level in the first column with the corresponding organisational objective in the second column.*
- | | |
|--|--|
| <ul style="list-style-type: none"> (a) <i>top management</i> (b) <i>middle management</i> (c) <i>lower management</i> | <ul style="list-style-type: none"> (i) <i>the mission of the organisation</i> (ii) <i>functional objectives</i> (iii) <i>operational objectives</i> |
|--|--|

Choose the correct combination:

- | | | |
|------------------|-------------------|--------------------|
| (1) <i>a (i)</i> | (2) <i>a (ii)</i> | (3) <i>a (iii)</i> |
| (4) <i>b (i)</i> | <i>b (ii)</i> | <i>b (iii)</i> |
| <i>c (i)</i> | <i>c (ii)</i> | <i>c (iii)</i> |

In this question you have to match the items in one column with the items in a second column. Let's say that you think that top management (a) is involved in the formulation of the mission of the organisation (i), then you already know that your answer could be either option 1 or 2. By comparing the other options in column one with those in column two, you should be able to choose between options 1 and 2.

Answering multiple-choice questions

Make a photocopy or record of your answers on a separate page.

You will find the multiple-choice questions in the assignment extremely useful when you prepare for the examination. However, if you mark your answers (or the correct answers) on the actual page in Tutorial Letter 101, you will not be able to use these questions again for revision. We strongly recommend that you either make a photocopy of the

assignments and use that for revision, or else write down your answers on a separate sheet of paper to avoid making any marks on Tutorial Letter 101 itself. You will then be able to work through these questions again in preparation for the examination, without seeing the marks that indicate the correct answers.

Decide on each option independently.

When answering a multiple-choice question, much time is often wasted (especially in the examination) by reading all four options before deciding which one is correct. The secret is to read and decide on each option separately. For example, look at question 3 above. The stem asks you to identify which statement is correct. Take a ruler and cover the other three statements so that you only see statement 1. Read it, and then, without reading any other statement, decide whether the statement is correct, wrong, or that you don't know. Put a tick next to it if you think it is correct; put a cross next to it if you think it is wrong; and put a question mark (?) next to it if you are not sure. Then move the ruler down so that you can read statement 2. Again decide and mark the category in which it falls.

When you have done that with every one of the four statements, you may find that you have marked one statement correct and three statements wrong. The former is then your answer. If you find that you have marked two correct, then compare the two statements and choose the one that seems to be the most correct, or the most comprehensive.

Write down your reasoning.

When you have selected your answer to a particular question in the assignment, it is essential that you write down the reasons for your choice. For example, if you chose option 2 as the correct answer to question 2 above, implying that statements a, b and d are correct, you should write on a separate sheet of paper why you think statements a, b and d are correct. Write down the actual reference in the prescribed book on which you base your reasoning. However, you must go even further. You must also write down why option c is wrong. Again make specific reference to the prescribed book to back up your reasoning.

This is probably the most important learning step that you can take. We want our students to understand the tutorial matter and to be able to explain the concepts and apply the principles. We are not interested in whether a student has memorised the tutorial matter and can repeat it in an examination. That is why it is so important for you to be able to give a reason for your answer.

It takes a few weeks from the time that you submit an assignment to the time that you get back the correct answers and explanations. By that time you will have forgotten why you chose a certain option for a particular question, unless you wrote down your reasons.

The real learning takes place when you compare your reasoning with that of the lecturers. So don't take the easy way out by just answering the multiple-choice questions.

Assessment of the module

We will assess your progress during the semester (your assignments) and in the examination at the end of the semester against transparent assessment criteria that link directly to the objectives of this module. In Tutorial Letter 101 we provide further details of the assessment and examination requirements for this module.

HOW YOU WILL BENEFIT FROM THIS MODULE

After completing this module, you should have the competence to apply business principles and skills to assist with the functioning of an enterprise or to conduct business with identified support. You should also understand that it is quite impossible for any business function to exist in total isolation. Without the interaction of the different business functions, the business cannot continue to exist or grow. Achieving the business objectives will remain a dream if this interaction does not take place.

WHAT YOU CAN EXPECT FROM UNISA

You can expect us to do the following:

- We will provide you with up-to-date and relevant study material, which we regularly compare and benchmark against similar local and international programmes.
- We will support you whenever you require academic assistance. You may contact your lecturers by phone or via e-mail, or by making personal appointments. We understand that studying through distance education is more challenging than attending a residential university.
- We will provide you with clear indications of what we expect from you in terms of your assessment.
- We will give you feedback on assignments.

This is a blended module, and therefore your module is available on myUnisa. However, in order to support you in your learning process, you will also receive some study material in printed format. myUnisa is an online platform for you to communicate with other students, the lecturer and administrative departments at Unisa. You can also download your study material, other resources and previous examination papers online.

We urge all of you to access myUnisa regularly if you are in a position to do so. You can access the myUnisa web page with a computer or a smartphone that is linked to the internet. You can also make use of Unisa's regional offices and access myUnisa from the computer labs, or you can make use of a computer at a Unisa telecentre or an internet café. Please consult the Study @ Unisa brochure for more information.

HOW TO APPROACH BSM1602

If you are not sure where to begin or how to approach your studies in Business Management 1B (BSM1602), this section is especially for you.



- Your starting point is Tutorial Letter 101. Read through the tutorial letter, to familiarise yourself with the procedures and general information related to this module.
- Read through the chapters, paying special attention to the key concepts and learning objectives of each particular chapter.
- After you have worked through each chapter, go back to the learning units in this document and work through the relevant learning unit. We are sure that you will find it pleasant to recognise (and be familiar with) the concepts and topics being discussed.
- Make notes in the textbook, in this document, or on a piece of paper, examination pad or notebook that you can use for your BSM1602 summaries.







It is vital that you understand and can apply the theory and concepts that are discussed in the prescribed book. You will not pass this module if you only study notes, examination papers, assignments or the learning units.

HOW TO APPROACH A CASE STUDY

- Read through the case study without trying to analyse it in any way.
- Read through the questions asked about the case study.
- Make sure that you understand the theoretical basis of each question. You cannot look for a solution before you are completely sure what the question is about.
- Read through the case study again and remember the contents of the questions.
- Work through the case study, identifying the specific information you need to answer each question.
- Integrate the theory with the information from the case study by indicating how the theory has or has not been applied.
- Draw your own conclusions.

USE OF ICONS

ICON	DESCRIPTION
	Key concepts. The key concepts icon draws your attention to certain keywords or concepts that you will come across in the chapter.
	Learning objectives. The learning objectives indicate what aspects of the particular chapter you have to master and be able to demonstrate that you have mastered.

	Study. The study icon indicates which sections of the prescribed book or the learning unit you need to study and internalise.
	Activity. The activity icon refers to activities that you must do in order to develop a deeper understanding of the learning material.
	Self-assessment. When you see the assessment icon you will be required to test your knowledge, understanding and application of the material you have just studied.
	Mind maps. Mind maps are provided to help you see the relationship between various sections of the learning material.
	Website link. The website icon will refer you to a website link with additional relevant and interesting information about a certain topic.
	Video. Instructions will be given to access a YouTube or other video which provides additional information on the specific topic at hand.

PLANNING AND MANAGING YOUR TIME

Attempting to balance study, work, family life and extracurricular activities is a challenge that will require of you to manage ever-increasing and competing demands. You therefore need to plan an appropriate schedule that will suit your own needs and circumstances. The due dates for assignments appear under the **Schedule** option on myUnisa, as well as in Tutorial Letter 101. You should consider following some of the followings recommendations:

Browse through the module site

Take time to browse through the module site and familiarise yourself with the requirements and demands of the module. This will enable you to see the “big picture” of the whole module. Enter the due dates for the assignments and other important aspects of the module that you need to attend to in your personal diary.

Compile a study timetable

Decide on strategies for planning ahead and compile your personal study timetable after you have taken note of all the important due dates and activities associated with the module.

Approach your studies systematically

Work your way systematically through the various learning activities, the self-assessment questions, the case studies and the assignments based on them, etc. Make sure that you meet all the requirements for the learning activities. Use the learning objectives and assessment criteria, the supporting material as indicators of the knowledge and skills you need to develop.

Contact your lecturers and/or e-tutors

Contact us via e-mail, telephone or the discussions tool if you experience difficulties with any aspect of the module. Our contact details are available on the home page of the module site.

LEARNING UNIT 1

INTRODUCTION TO BUSINESS MANAGEMENT FOR THE ENTREPRENEUR

OVERVIEW

This learning unit explains the broad environment in which the small business functions. The environment in which a business functions can be defined as the sum total of all the factors and variables that influence the growth and continued existence of the business positively or negatively.

STUDY CHAPTER 1 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *understand the importance of small and medium businesses*
- *differentiate between entrepreneurs and business managers*
- *describe the business management tasks of an entrepreneur*
- *discuss the environments in which a business operates*



Key concepts

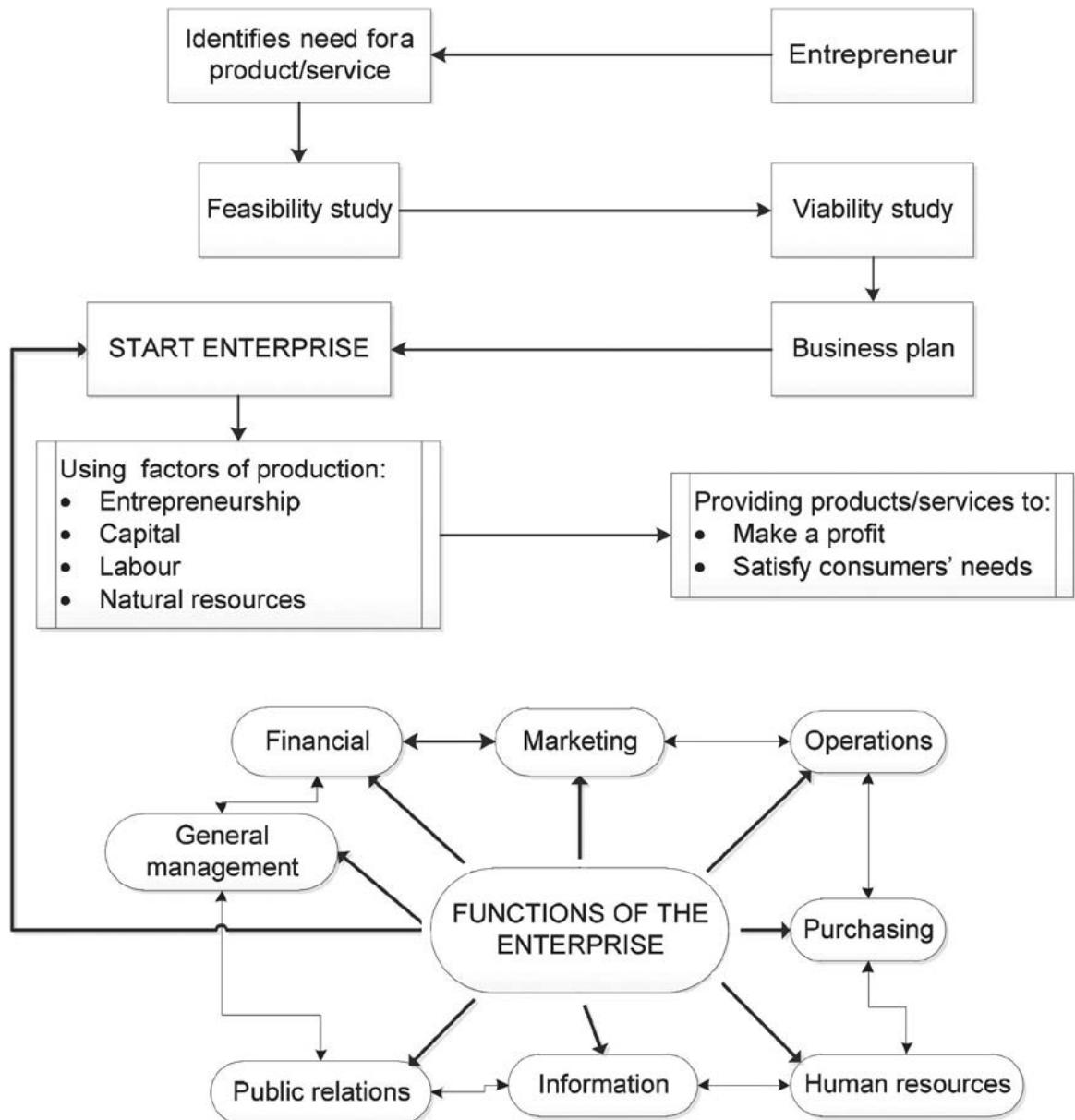
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- entrepreneur
- manager
- small business management
- business management tasks
- business environment
- micro-environment
- market environment
- macro-environment
- consumers
- suppliers
- intermediaries
- competitors
- political environment
- social environment
- physical environment
- economic environment

- technological environment
- international environment



Mind map for learning unit 1



If you have not yet studied chapter 1 in the prescribed book as requested, this introduction and what follows will not provide you with the information and insights that you need to achieve the envisaged outcomes. You must only continue from here after reading chapter 1. The same goes for all the other learning units. You must first study the relevant chapter in the prescribed book, before reading through each learning unit.

1.1 INTRODUCTION

The creation of an enterprise consists of three stages:

(a) *The idea stage*

An entrepreneur identifies a need for a product/service in the market.

(b) *The planning stage*

The entrepreneur conducts a viability study – an in-depth investigation of the market and profit potential of the idea.

(c) *The implementation stage*

The entrepreneur starts the enterprise by using the four factors of production (entrepreneurship, capital, labour and natural resources) to provide products/services to satisfy consumers' needs.

1.2 ENTREPRENEURSHIP AND THE BUSINESS

In the context of the South African economy, the production factor of entrepreneurship is pivotal for the development and growth of economic systems. The importance of entrepreneurship has been widely recognised in South Africa, with government authorities making enormous efforts to identify entrepreneurs, provide them with capital, stimulate their businesses, assist their development and generally make it easier for them to enter business.

The entrepreneur can thus be described as a person who uses his/her talents and abilities to take the initiative to acquire capital and natural resources, combine them and provide the necessary management, and so convert an original idea into a business.

1.3 ENTREPRENEUR VS MANAGER

Make sure you understand the difference between an entrepreneur and a small-business manager, and their roles.



Study the section “Entrepreneur vs manager” in your prescribed textbook.



Activity 1.1

Do you think the entrepreneur and the small-business manager could be one and the same person? Discuss the possibilities with your fellow students and e-tutors on the discussion forum.

.....

Entrepreneur	Business manager
Starts own enterprise	Manages enterprise
Takes risks	Does not have to take risks
Is creative and innovative	Creativity and innovation not required
Is responsible for growth	Is responsible for profit and survival

Although it may seem that the role of the entrepreneur is more important than that of the manager, management plays an extremely important role in the success of an enterprise. Effective management ensures that tasks are accomplished and employees are satisfied.



Watch this video on the most important difference between an entrepreneur and a manager:

<https://www.youtube.com/watch?v=1K3qGEoFPmw>

1.4 SMALL-BUSINESS MANAGEMENT

The entrepreneur's primary responsibility in the small business is to bring together all the factors of production in a coordinated manner so that the business enterprise stands a chance of realising its goals and maximising the profits.

1.4.1 The business management tasks of the self-employed entrepreneur

- General management – has to run the business on his/her own
- Financial function – must manage cash flow, accounts, budgets and bookkeeping
- Marketing function – must find markets for the products and sell the products
- Operations function – needs technical expertise/product knowledge
- Purchasing function – must find suppliers of raw materials/stock
- Human resources – must recruit, employ and manage the employees
- Information management – must collect information and do the record-keeping
- Public relations function – must do his/her own networking/marketing of the enterprise

1.4.2 The business management tasks of the entrepreneur as an employer

- The entrepreneur can appoint more people and divide the work according to individual skills and expertise.
- The functions of the enterprise will become more formal.

- Leadership skills will have to be developed to solve problems, make decisions and give the business direction.
- A more formalised approach to ensure proper planning, organising, leadership and control becomes essential.



Activity 1.2

Would you say that the marketing function and public relations function are the same? Explain the main difference between the marketing function and the public relations function and discuss your answer with your fellow students and e-tutor on the discussion forums.

.....

1.5 THE ENVIRONMENT IN WHICH A BUSINESS OPERATES

The enterprise can be described as an independent institution established by an entrepreneur to make a profit by producing goods or providing services that satisfy the needs of consumers. Therefore, the entrepreneur identifies a consumer need and establishes an enterprise to produce goods and/or provide services to satisfy that need. The motive for the entrepreneur's action is to make a profit. Both the entrepreneur and the consumer benefit from the establishment of the enterprise, because the consumers are able to satisfy their needs, while the entrepreneur makes a profit.

Every enterprise also functions in an environment (the business environment) in which various events and variables influence the activities of the enterprise. These events may pose opportunities or threats to the enterprise. We can use technological development as an example. On the one hand, it offers opportunities because new products and services are created, while on the other hand it can constitute a threat because it may result in an enterprise's products or services becoming obsolete.

It is essential for an enterprise to be aware of these variables and events, as they can have a fundamental effect on the daily functioning of the enterprise and can also make demands on the management of the enterprise. With the help of action plans, management should be able to utilise the influence of these events and changes to the benefit of the enterprise. If it is not possible to use the influence of the variables in a positive way, management should at least try to neutralise the negative effects.

The entrepreneur should therefore be familiar with the business environment and its opportunities and threats because this is of primary importance for the growth and continued existence of the enterprise. The impact of the business environment on an enterprise plays a significant role in the success or failure of the enterprise. For this reason the entrepreneur should study the business environment thoroughly. Without this knowledge, it is impossible for the management of an enterprise to achieve its predetermined objectives.

The business environment is usually divided into three components, namely the micro-environment, the market environment and the macro-environment. Each of these

three components of the business environment includes a variety of variables that influence the enterprise positively or negatively.



Study the section "The environment in which businesses operate" in your prescribed textbook.

1.6 THE BUSINESS ENVIRONMENT

1.6.1 The characteristics of the business environment

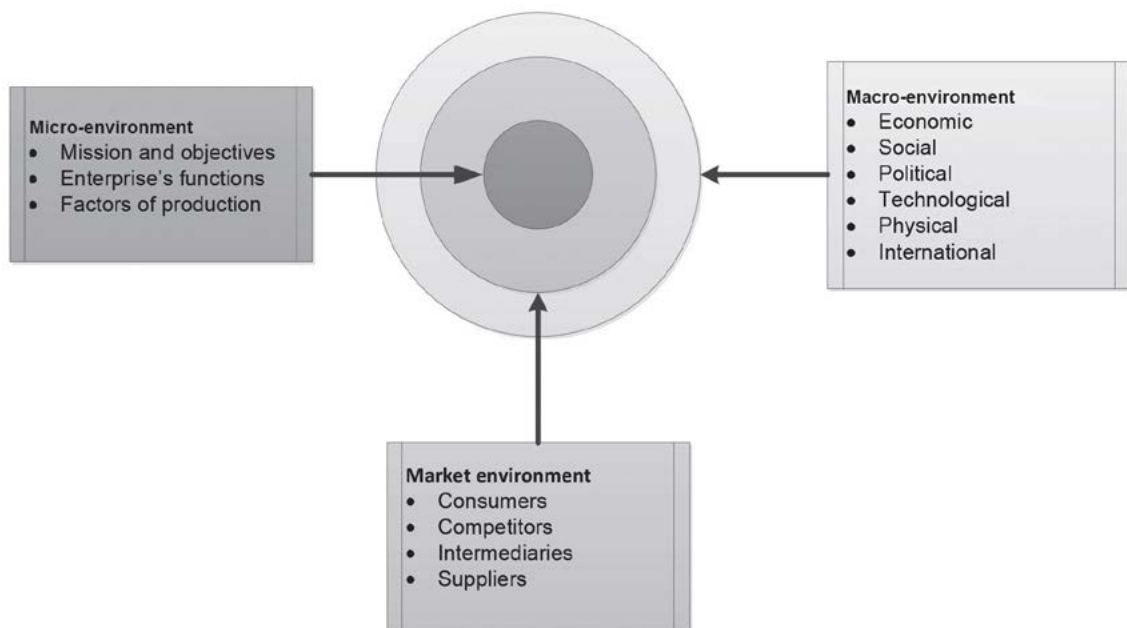
- The business environment changes constantly.
- The enterprise must be in step with the changing environment.
- The establishment, growth and continued existence/survival of the enterprise are directly influenced by the business environment.
- The business environment influences the future of the enterprise.
- There are both opportunities and threats in the business environment.
- The variables in the business environment are interdependent.
- The complexity of the influence of the business environment depends on the type of enterprise.

The business environment can affect the enterprise positively and/or negatively. The entrepreneur should be aware of the variables in the business environment, since they represent the strengths, weaknesses, opportunities and threats that can benefit or harm the enterprise.

The entrepreneur compiles his/her SWOT analysis based on this business environment:

Micro-environment: strengths and weaknesses

Market environment and macro-environment: opportunities and threats



The business environment

1.6.2 The micro-environment

The micro-environment or the internal environment refers to the aspects that are under direct control of the management of the enterprise, and is known as the enterprise itself. Aspects identified in the micro-environment are:

- (a) Mission and objectives***
- (b) Functions of the enterprise***
- (c) Factors of production***

1.6.3 The market environment

The market environment is external to the enterprise, and the management of the enterprise has only limited control over it. The aspects identified in the market environment are:

- (a) Consumers***
- (b) Competitors***
- (c) Intermediaries***
- (d) Suppliers***

1.6.4 The macro-environment

The macro-environment or the external environment is identified as the environment over which management has no control and is classified into six variables:

- (a) Economic environment***
- (b) Social environment***

- (c) *Technological environment*
- (d) *Political environment*
- (e) *Physical environment*
- (f) *International environment*



Watch this video which summarises the components of the business environment:
<https://www.youtube.com/watch?v=PCBcdk9hAF0>

Activity 1.3



Do you think it is possible for an enterprise to exist in total isolation? (In other words, is it possible for an enterprise to grow and exist if factors such as consumers and their needs, competitors, and the prevailing economic and political conditions are not taken into consideration?) Discuss your answer with your fellow students and e-tutors in the discussion forums.

.....

Activity 1.4



Discuss in your own words, what supply chain management is. (Refer to your textbook for an explanation.)

.....

Activity 1.5



What can an entrepreneur do to overcome threats in the macro-environment? List possible solutions. Discuss the possibilities with your fellow students and e-tutor in the discussion forums.

.....

1.7 SUMMARY

In chapter 1 we introduced you to business management for the entrepreneur. It is clear that the management of a small business enterprise differs from that of a larger enterprise. As the business grows, the functions of the enterprise as well as their management become more complex. In order to survive in the business world, entrepreneurs should be aware of the ever-changing business environment in which they function.

The eight functions of the enterprise operate as a system. There should be constant interaction between these functions to ensure that the enterprise operates successfully. All these functions occur in every enterprise, regardless of the size of the enterprise, and they are equally important in the creation of a successful enterprise.

The general management function forms the foundation of an enterprise and supports all the other functions that operate in the enterprise. It is important to realise that although general management is a function on its own, it occurs in all the other functions of an enterprise. In chapter 2 we will discuss the four main functions of general management, the additional functions of management and the important role that general management plays in the success of an enterprise.

In the course of this chapter we have seen that it is quite impossible for any enterprise to function in total isolation. Without interaction with the business environment, the enterprise cannot continue to exist and grow. If this interaction does not take place, the objectives of the enterprise will remain a dream.

The enterprise should analyse the business environment constantly. The management of the enterprise should also determine, with the help of research, what the general trends in the environment are. From these analyses management can obtain valuable information about opportunities and threats that will be fundamentally important during the decision-making processes in the enterprise. The business environment offers the enterprise opportunities that will help it to achieve its predetermined objectives and in this way ensure its growth and continued existence. The opposite is also true, however. If the enterprise does not heed important signals in the business environment, it could lead to its demise.

The various components of the business environment are not independent of each other – constant interaction occurs between the different sub-environments. In this chapter we have investigated the following three components of the business environment: the micro-environment, the market environment and the macro-environment.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 1, you can proceed with chapter 2.

LEARNING UNIT 2

GENERAL MANAGEMENT

OVERVIEW

This learning unit explains the broad field of management. The prescribed textbook discusses the general guidelines for managing a business and the framework within which entrepreneurs apply the management principles. It also explains the managerial competencies that you as entrepreneur should have if you want to manage your business effectively. This learning unit provides a holistic view of management as a science and outlines the management process as a whole.

STUDY CHAPTER 2 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *analyse the major challenges of managing in the new economy*
- *discuss the functional perspective in the business*
- *compare the description of general management with the description of other business management functions*
- *sketch the role of management in a diagram*
- *illustrate planning and the different levels of planning as the first task of the management function*
- *explain control as a task of the management function*
- *describe organising as the framework for the business's activities*
- *give an explanation of the role and importance of leadership as a fundamental task of management*
- *distinguish between the different additional management tasks*
- *apply the managerial competencies in your business*



Key concepts

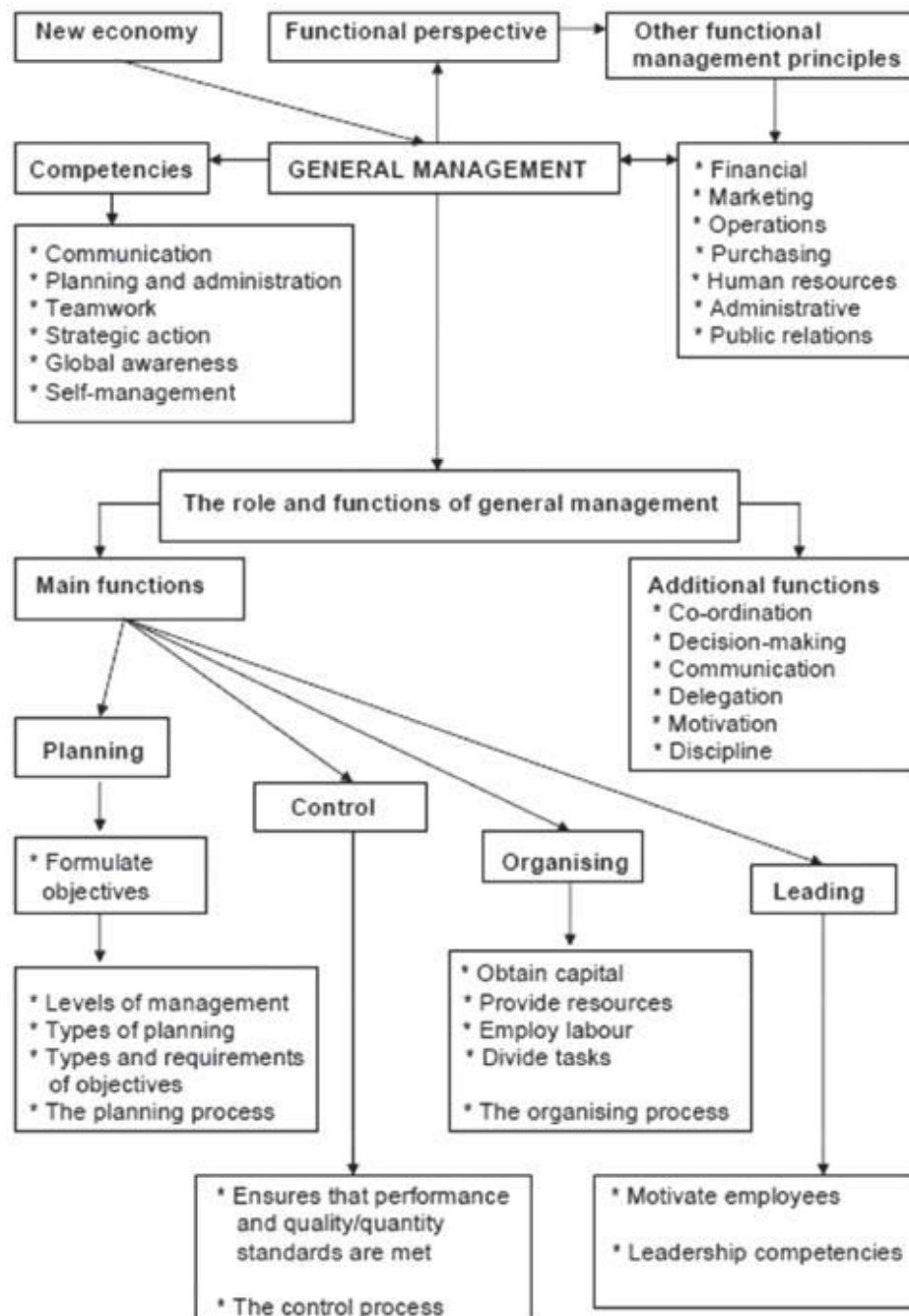
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- the new economy
- the functional perspective
- general management principles
- planning
- organising
- leading
- control

- coordination
- decision-making
- communication
- motivation
- delegation
- discipline



Mind map for learning unit 2



2.1 INTRODUCTION

Although management has long had the status of an autonomous science, it is not independent, nor able to exist in isolation. Along with the various other sciences orientated to business management, management has developed into a science with a unique body of knowledge and professional management practices for managing a business.

2.2 THE NEW ECONOMY

The business world of the entrepreneur has changed completely from the way in which it was once viewed. Today's entrepreneurs manage in an economy of ideas, known as the new economy. South African entrepreneurs are entering a future that is fast-moving and characterised by fundamental change.

As an entrepreneur who manages your own business, you should recognise and acknowledge the following key components that have reshaped the world of this new economy:

Key concepts of the new economy	
New communication technologies	<ul style="list-style-type: none">• This involves the transformation to an electronic economy – the move from equipment to information.
Globalisation	<ul style="list-style-type: none">• Entrepreneurs should be able to manage their businesses in a worldwide market.• Multinational businesses have offices and facilities across the world – without reference to national borders.
Knowledge management	<ul style="list-style-type: none">• Knowledge management can be defined as the process of discovering and harnessing the intellectual resources of a business.• The entrepreneur should use the knowledge and ideas of the people who work for the business.• The entrepreneur should find, unlock and share his/her co-workers' skills, wisdom and the relationships between these people.
Alliance	<ul style="list-style-type: none">• People in different departments of the business should work together effectively.• All the activities of a business should be aligned with one another – communication between different people in the business, departments, divisions and subunits should be of a high standard.



Follow this link and read some interesting facts about the benefits and costs of working in the new economy.

<http://www.open.edu/openlearn/people-politics-law/politics-policy-people/sociology/living-and-working-the-new-economy/content-section-3.1>



Activity 2.1

Explain in your own words what management is. Write down your explanation in no more than five points.

.....



Activity 2.2

Can the economy cause an enterprise to fail? Discuss the possibilities with your fellow students and e-tutor in the discussion forums.

.....



Go back to your prescribed textbook and study the key components of the new economy.

Study the different functional departments as explained in your prescribed textbook, as well as the summaries of the different functions in this study guide. Make sure that you understand the role and function of each of these different functional departments.

2.3 BUSINESS FUNCTIONS: A PERSPECTIVE

Every business performs various business functions. Businesses generally consist of eight functional departments, namely general management, operations, finance, purchasing, marketing, information, human resources and public relations.

It is important that you recognise the difference between general management principles and the different functional management principles. The different business functions refer to the different sections or departments in the business; therefore, the functional management principles relate to the activities that are specific to each section or department. In contrast, the general management principles relate to the activities that contribute to managing the whole business effectively and efficiently across all levels and departments.



Activity 2.3

Is there a difference between general management principles and the other functional management principles? List and highlight the main differences between these functions.

.....

There is, and should be, constant interaction and coordination between these functions to ensure that the enterprise operates successfully. The departments/functions must be aligned in such a way that they all move in the same direction and support one another so that the overall objective can be achieved. All these functions occur in every enterprise, regardless of its size. In a small business the entrepreneur will group some of these activities together to be managed by one person. In a large business, on the other hand,

a functional manager will manage a specific department/function of the enterprise, such as marketing or administration.

The entrepreneur can also outsource some of these functions to another business or person. Outsourcing means the transfer of responsibilities for a specific business function from an employee group to a non-employee group.

The difference between general management principles and other functional management principles:

General management	<ul style="list-style-type: none"> • This function differs from the other functions – it cannot be placed in a department of its own. • General management is responsible for the management activities (planning, organising, leading and control) on all levels in all the departments of the business. • This function is responsible for all the activities that are performed in the enterprise to enable the enterprise to attain its goals.
Financial management	<ul style="list-style-type: none"> • The financial manager is responsible for the efficient planning, organising and control of all the financial activities. • Financial activities include obtaining capital and the effective use of capital.
Marketing management	<ul style="list-style-type: none"> • This function is responsible for the transfer of the products from the manufacturer to the consumer, as well as the activities that make this transfer possible. • The activities include market research, market segmentation, deciding on the target market, deciding on the marketing strategy and compiling a marketing plan.
Operations management	<ul style="list-style-type: none"> • This function is concerned with the transformation of inputs into outputs by using the four factors of production to manufacture a product or render a service.
Purchasing management	<ul style="list-style-type: none"> • This function ensures that production means of the right quality are supplied to the enterprise in the right quantities, at the right time, to the right place, from the right supplier, at the right price. • It includes the determination of purchasing needs and finding suitable suppliers.
Human resources management	<ul style="list-style-type: none"> • This function is responsible for the procurement, development, compensation, integration, maintenance and effective use of a competent, motivated labour force.
Information management	<ul style="list-style-type: none"> • This function is responsible for the collection, processing, analysis and distribution of information. • They communicate the information to management to enable them to make informed decisions.
Public relations management	<ul style="list-style-type: none"> • This function is responsible for the promotion of the image of the enterprise among all the interest groups of the business. • They evaluate public attitudes, and plan and execute a plan of action to earn public acceptance and understanding in order to ensure positive support from all the relevant interest groups.



Activity 2.4

Do you think that general management principles are more important than other functional management principles? List the reasons for your thoughts and discuss this with your fellow students and e-tutors in the discussion forums.

.....

2.4 GENERAL MANAGEMENT

It is important that you understand the definition of management. Management is a process that consists of certain components that you must familiarise yourself with.

2.4.1 The definition of management

Management is the process of utilising an enterprise's resources to achieve specific objectives through the functions of planning, organising, leading and controlling.

2.4.2 The objectives of an enterprise

These are the goals that the enterprise should achieve in order for it to continue to exist. Take care not to think that the different management tasks can function independently or exist in isolation. Thus, in discussing planning do not forget about the other three tasks and the integral role they play in the management process. It is important to remember that management is a process of utilising an organisation's resources to achieve specific objectives through the functions of planning, organising, control and leading.

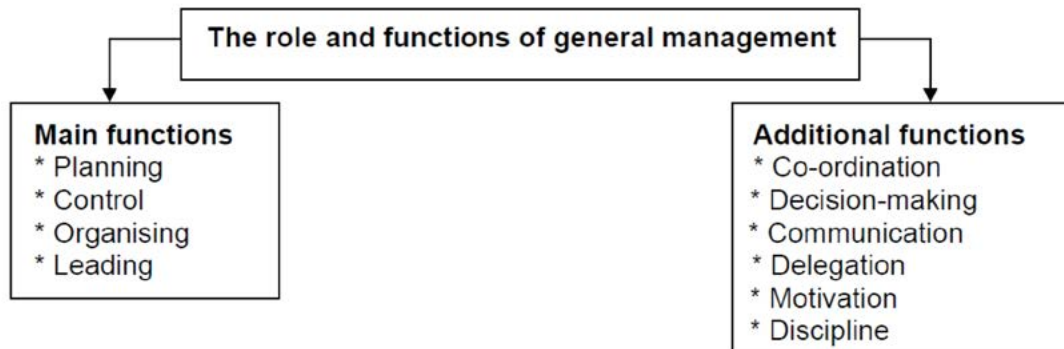
- **Planning.** This is the management process through which the vision, mission and objectives of the organisation are defined and through which a comprehensive hierarchical plan to integrate and coordinate activities is devised.
- **Organising.** This is the management task concerned with arranging the activities and resources of the enterprise through the allocation of duties, responsibilities and authority to persons and divisions, and the determination of the relationships between them, in order to promote cooperation, the systematic performance of the work and the achievement of objectives in the most efficient way possible.
- **Leading.** This refers to the way in which a person in a leadership role relates to other members of the team/group. The nature of this relationship should be such that the members of the team will cooperate voluntarily to achieve the objectives that the leader has set for himself/herself, as well as for the team/group.
- **Control.** This is a continuous process through which managers oversee employees' progress in reaching specific objectives. Managers do this by measuring actual performance against set standards and by making corrections if any deviations occur.



Study the different main functions of general management as explained in your prescribed textbook and the summaries of the main functions in this learning unit.

2.5 THE ROLE AND TASKS OF MANAGEMENT

These functions/elements are closely connected to form a unit – one cannot exist without the other.

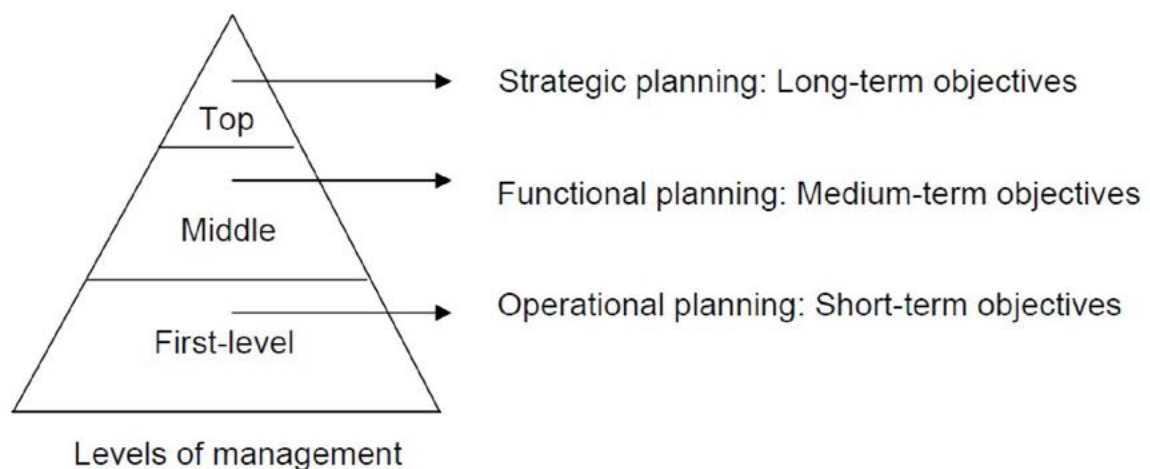


2.6 THE MAIN FUNCTIONS OF GENERAL MANAGEMENT

2.6.1 Planning

- **Definition:** Drawing up objectives for the enterprise and working out a systematic plan for achieving these objectives.
- **Meaning:** Management should determine in advance what the business wants to achieve and how these objectives can be attained.

(a) Types of planning



Strategic planning	<ul style="list-style-type: none"> • Development of broad general guidelines/strategies • Reflects the mission of the enterprise • Long-term planning • Time frame: 3 to 10 years or longer
Functional/tactical planning	<ul style="list-style-type: none"> • Plans are drawn up for every function/department in the enterprise – for the marketing department, the financial department, and so on • Focuses specifically on the enterprise's activities • Medium-term planning • Time frame: 1 to 3 years
Operational planning	<ul style="list-style-type: none"> • Involves the daily giving of instructions and carrying out of instructions • Short-term planning • Time frame: not more than one year



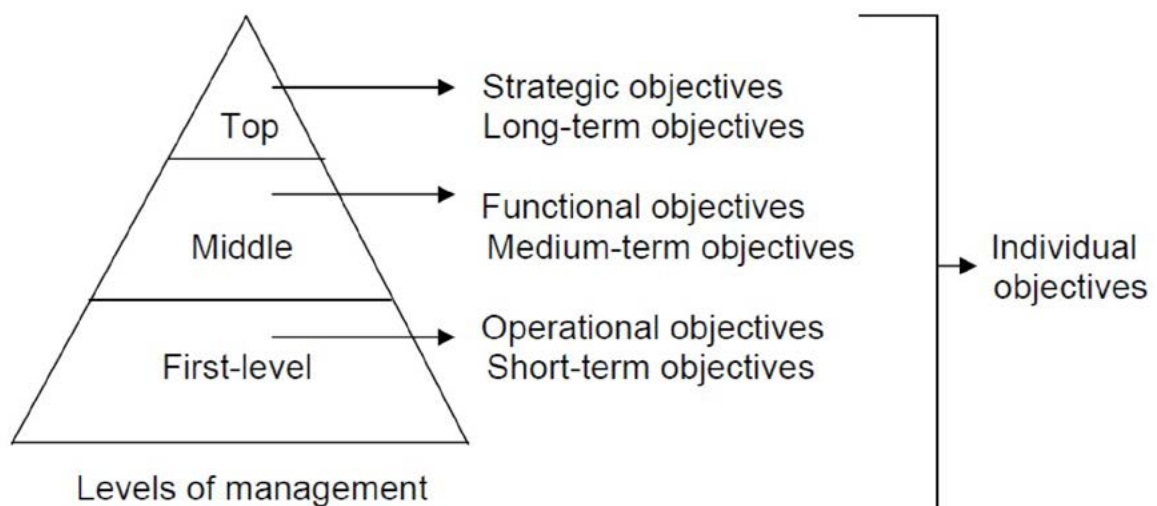
Activity 2.5

Do you think that any one of these types of planning is more important than the others? List the reasons for your view, and discuss it with your fellow students and e-tutor.

.....

(b) Objectives

Types of objectives

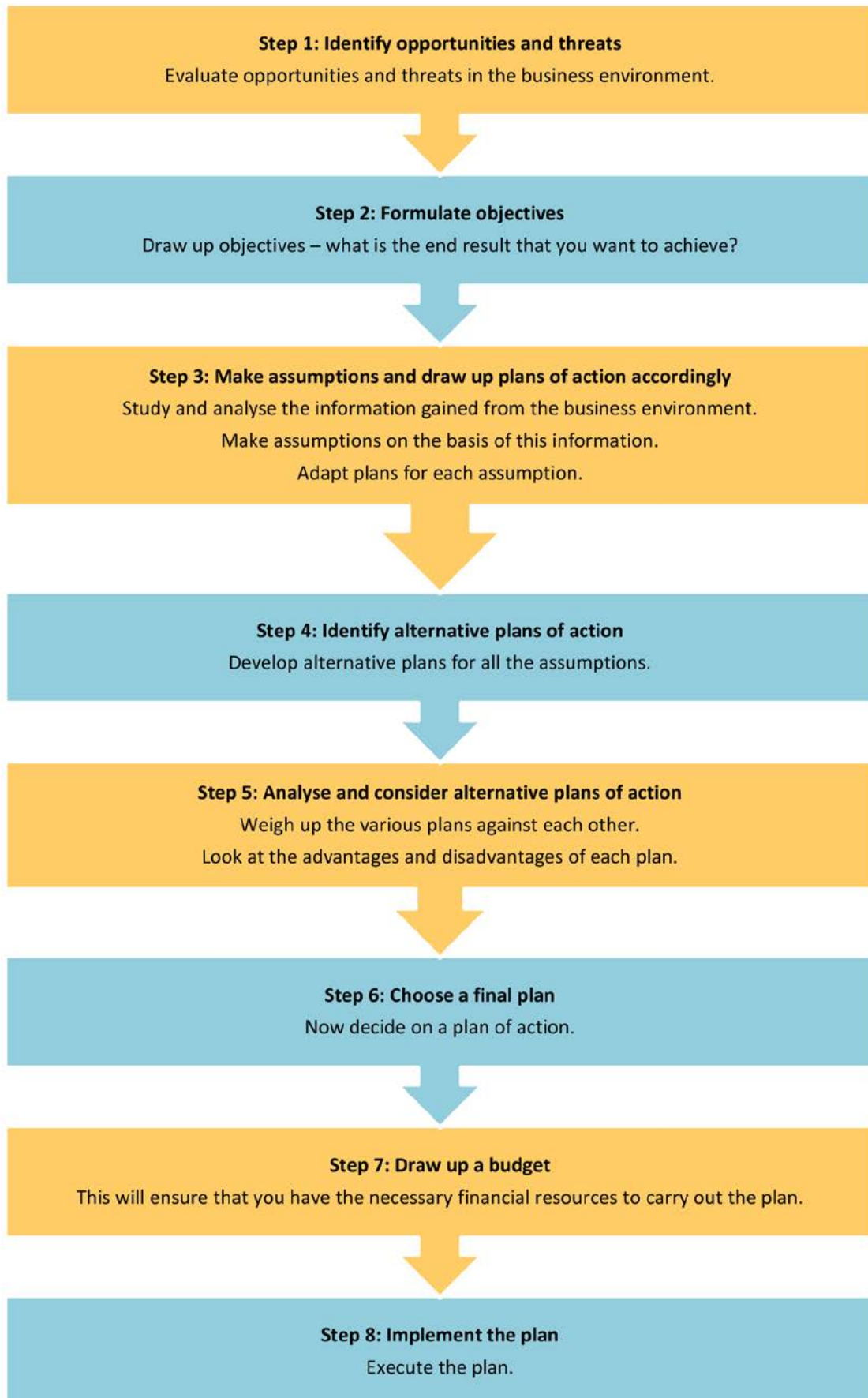


Strategic objectives	<ul style="list-style-type: none"> • These objectives determine and help formulate the mission. • They are long-term objectives. • Example: delivering a good service to consumers
Functional/tactical objectives	<ul style="list-style-type: none"> • These are derived from the long-term objective. • Objectives are set for each function of the enterprise. • They are medium to short-term objectives. • Example: 20% increase in market share over the next three years
Operational objectives	<ul style="list-style-type: none"> • These are short-term objectives. • Example: 5% increase in sales each month
Individual objectives	<ul style="list-style-type: none"> • These are the personal objectives of each employee and the activities that they carry out. • Example: a member of the sales staff determining the exact needs of clients

(c) *The planning process*



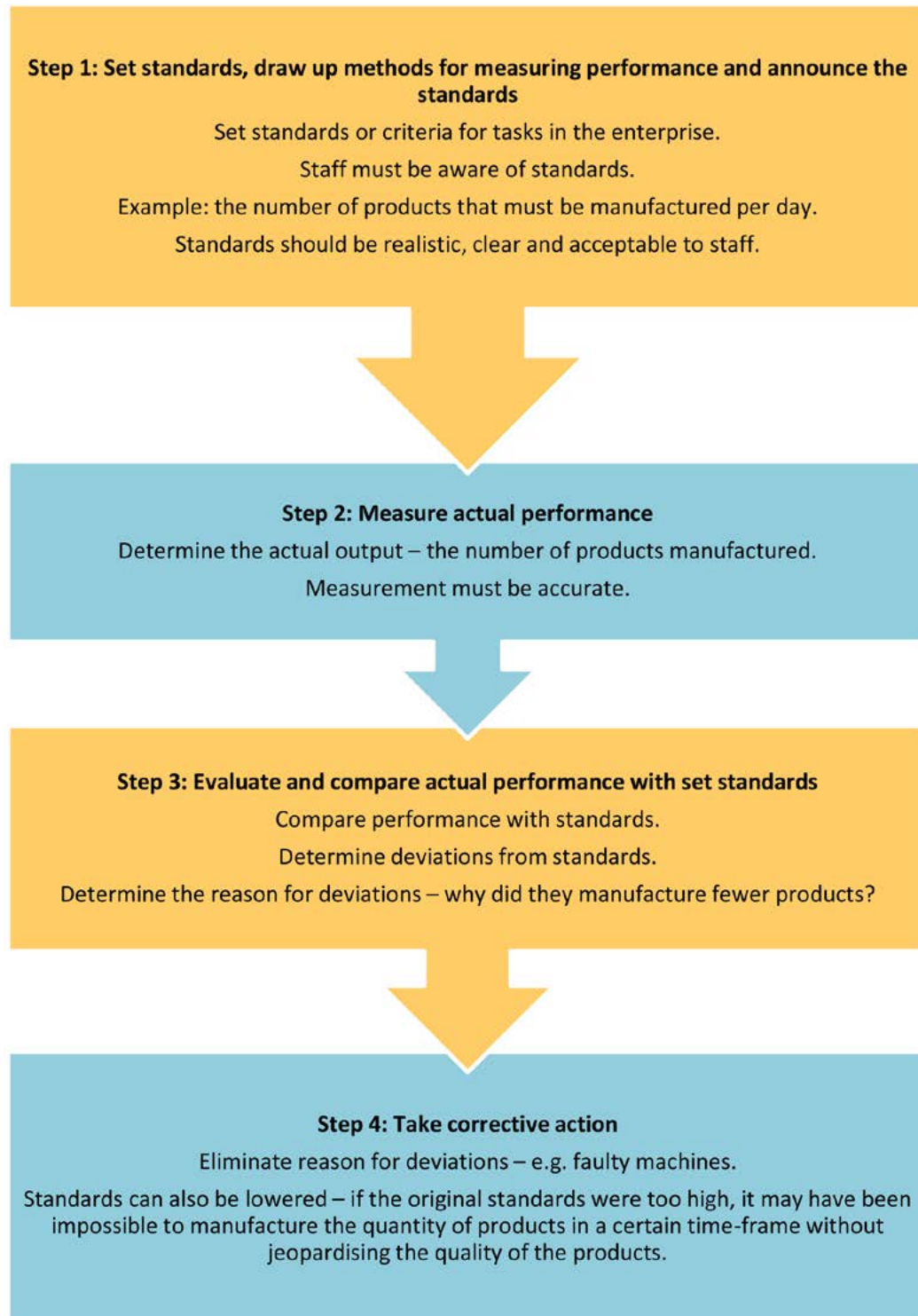
Watch this video about the levels of planning within an organisational structure:
<https://www.youtube.com/watch?v=gpO91cxnndw>



2.6.2 Control

- **Definition:** Determining realistic standards against which employees' actual performance can be measured, so that deviations can be identified and corrective steps can be taken.
- **Meaning:** The manager ensures that employees carry out instructions according to plan.

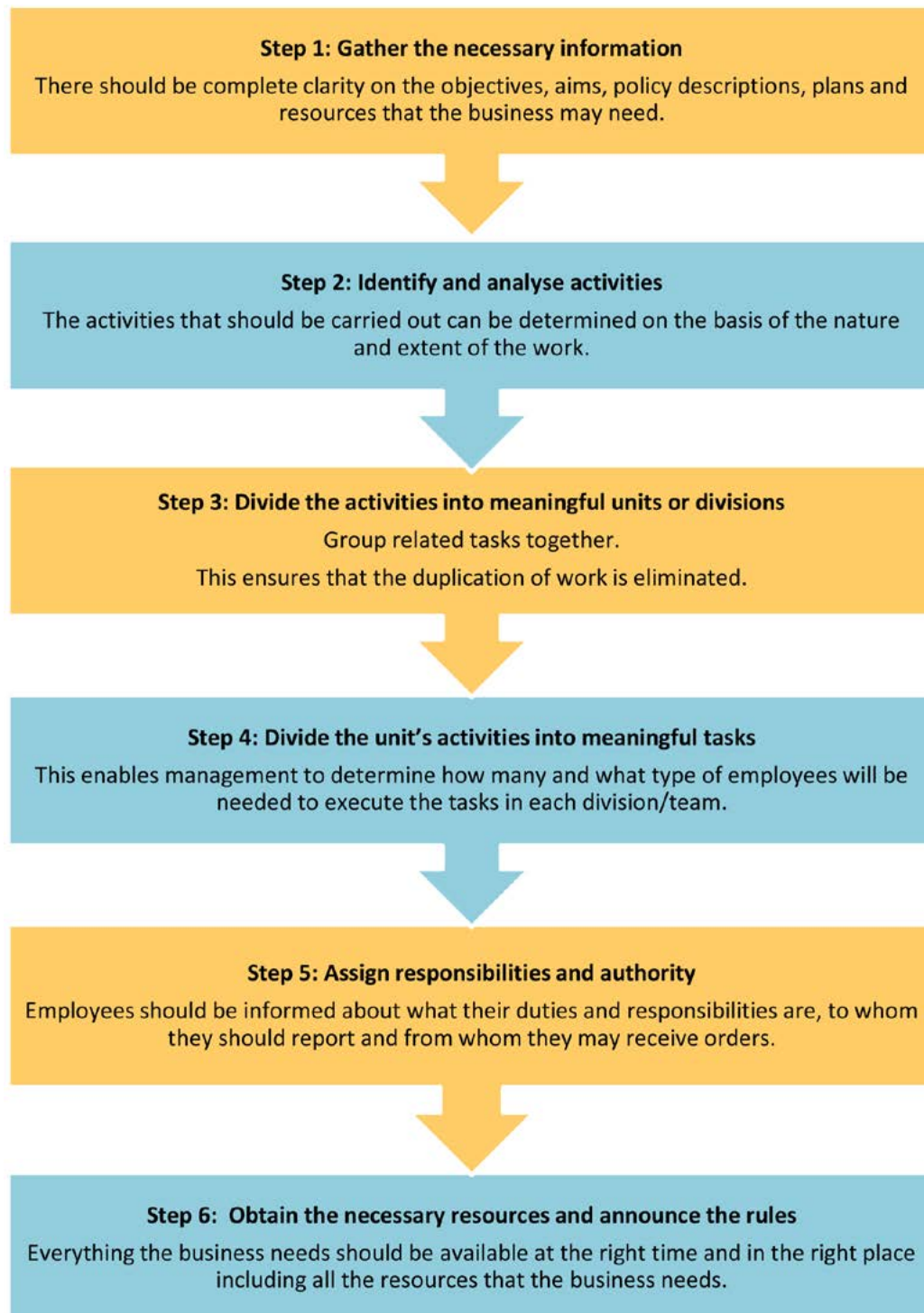
The control process



2.6.3 Organising

- **Definition:** Organising is the grouping and coordination of activities, the creation of posts and the allocation of duties, authority and responsibilities.
- **Meaning:** This entails the provision of resources – labour, capital and raw materials/ stock – and the division and distribution of tasks. This means you must determine in advance how, where, by whom, when and with what resources jobs must be carried out.

The organising process



2.6.4 Leading

- **Definition:** Leading means the way in which a manager helps subordinates, so that they will work together voluntarily to achieve the objectives of the business.
- **Meaning:** The relationship between the leader and the members of a working group should be such that the members of the group will work together willingly to achieve the objectives of the group.

Leadership competencies

Management of attention	<ul style="list-style-type: none"> • Good leaders should have the ability to draw people to them. • They should have the ability to motivate people (through discussion) to achieve the vision of the business through active contribution.
Management of meaning	<ul style="list-style-type: none"> • The leader should communicate and align the objectives to make the vision of the business clear to others.
Management of trust	<ul style="list-style-type: none"> • Reliability, honesty, integrity and mutual trust should be combined with teamwork, recognition of performance, participation and empowerment.
Management of self	<ul style="list-style-type: none"> • Leaders should know their strengths and weaknesses. • Various leadership styles exist. • No leadership style will be perfect in all situations. A good leader should have the ability and good judgement to sum up circumstances and to adapt his/her style accordingly.



Activity 2.6

Indicate if you agree or disagree with this statement: "If a manager takes corrective action, it is a way of punishing workers." List the reasons for your answer in no more than 4 points.

.....

2.7 THE ADDITIONAL FUNCTIONS OF GENERAL MANAGEMENT

Additional function	Definition
Coordination	This is the process in which the functions of the enterprise are treated as a functional unit, so that the objectives of the enterprise can be achieved.
Decision-making	Various possible solutions are considered for problems, and the best solution is chosen.
Communication	Communication involves the transfer of messages (information) between the enterprise and its external environment, and within the enterprise itself.

Motivation	The entrepreneur motivates his/her employees by persuading them that they should voluntarily do the work as well as possible. (They must be willing to do the work.)
Delegation	Delegation is the allocation of power (authority) and responsibility to subordinate employees to enable them to do the work.
Discipline	Discipline shapes the behaviour of employees so that their conduct will help to ensure the successful operation of the enterprise.



Activity 2.7

There are various ways in which a manager can motivate his/her employees. Can you name a few of these ways? Discuss your answer with your fellow students and e-tutor.

.....



Follow these links to access some quizzes on entrepreneurship:

<http://www.oercommons.org/courses/enterprise-and-management-o-quiz/view>

<https://www.boundless.com/quizzes/introduction-entrepreneurship-quiz-81846/>

2.8 MANAGERIAL COMPETENCIES

- (a) *Communication*
- (b) *Planning and administration*
- (c) *Teamwork*
- (d) *Strategic action*
- (e) *Global awareness*
- (f) *Self-management*

2.9 SUMMARY

Chapter 2 dealt with the functions of general management. The four main functions and the six additional functions are closely connected to form a unit – one cannot exist without the other. These functions cannot be isolated from one another and must be applied as an integrated whole.

No enterprise can exist without the necessary financial resources. Enterprises need capital to buy fixed and current assets to be able to manufacture or sell a product or service, in order to generate an income/make a profit. In chapter 3 we will discuss how the financial activities of an enterprise should be managed in order to gain the maximum return on the capital invested in the enterprise.

Owing to the integrated nature of the management function, it is understood that entrepreneurs should have some knowledge of the various functions in a business, so that they can carry out their management functions effectively. It is ultimately the task of the entrepreneur as manager to ensure that the business moves towards the achievement of its goals, such as prosperity (some businesses refer to this as maximising profit), service to the community and providing security for its employees.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 2, you can proceed with chapter 3.

LEARNING UNIT 3

THE FINANCIAL FUNCTION

OVERVIEW

Business takes place on a daily basis in South Africa. People are involved in business activities every day when buying bread, milk, cool drinks, sweets, or other forms of food from a business. Financial activity plays an important role in all of these activities, and therefore every business, regardless of its size, will have a financial department. The person who heads this function is usually called the financial manager. The financial function is one of the functions of an enterprise.

STUDY CHAPTER 3 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *define the financial function*
- *define and discuss financial management*
- *describe the role of the financial management function*
- *distinguish between the types of financial statements*
- *prepare a statement of the financial position and a statement of comprehensive income*
- *define and discuss the tools of financial planning*
- *demonstrate an understanding of the statement of financial position and the statement of comprehensive income*
- *demonstrate an understanding of the cash-flow statement*
- *calculate the cost of goods sold or cost of sales*
- *calculate and interpret different financial ratios in terms of liquidity, profitability, activity and leverage*
- *forecast profits*
- *forecast financial statements using pro formas*
- *define and discuss cost-volume-profit analysis*
- *calculate break-even point in units and rands*
- *define and discuss different money sources for a small business*
- *define and discuss credit and collection methods define and discuss cash-flow planning techniques*
- *prepare a cash-flow plan*

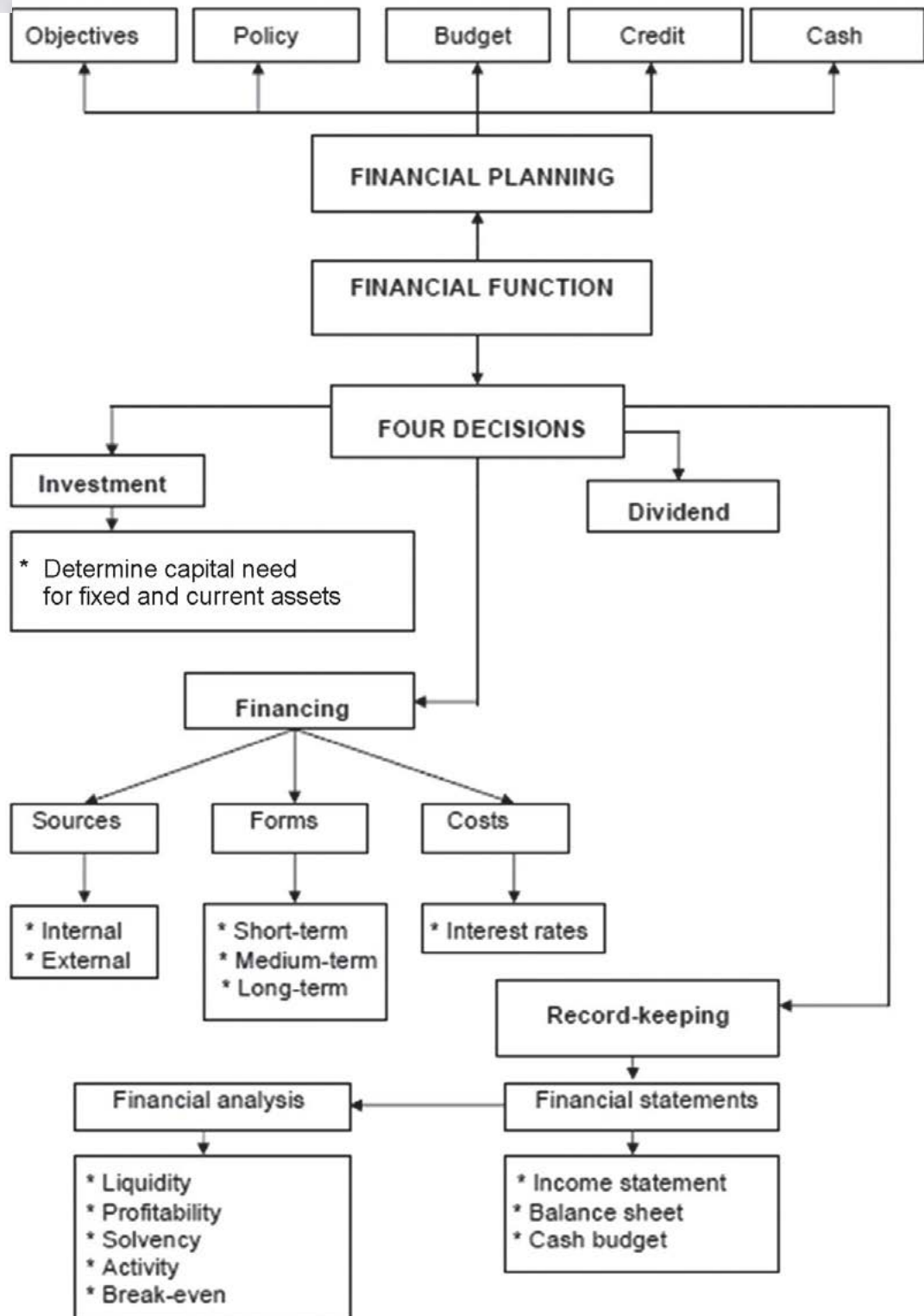


Key concepts

You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- statement of financial position
 - assets
 - liabilities
 - owner's equity
 - financial planning
 - statement of comprehensive income
 - cash flow
 - cost of sales
 - liquidity
 - profitability
 - leverage
 - forecast profits
 - break-even point
-

Mind map for learning unit 3



3.1 INTRODUCTION

Chapter 3 (The financial function) in your prescribed textbook discusses the essence and different objectives of financial management, important concepts in financial management and some basic accounting concepts.

No enterprise can exist without the necessary funds and money is needed to establish the enterprise. Money is also needed to ensure that the enterprise can continue to function on a daily basis – money to buy raw materials to manufacture products, or money to buy stock to sell to the consumers. The financial function must therefore be managed in a meaningful and orderly way so that the business can generate enough cash over the short term and enough profit over the long term.

3.2 WHAT IS FINANCIAL MANAGEMENT?

The financial function includes all the activities in the business that are involved in obtaining capital and in the efficient use of capital. These activities cannot be carried out effectively without the necessary management and are therefore linked to management activities. The financial manager is responsible for the effective planning, organisation, coordination, delegation and control of all the financial activities in the business in order to achieve the primary objective of the business.

Remember that the financial manager is responsible for managing the financial function and the financial activities.



Watch this video on financial management and cash-flow planning for start-up enterprises:

<https://www.youtube.com/watch?v=AENufT10kAM>

3.3 UNDERSTANDING FINANCIAL STATEMENTS

Financial managers use various tools in carrying out their tasks. One of these tools is financial statements. The general purpose of financial statements is to provide the owner of the business with information. To be able to understand the financial statements of your business, it is essential that you understand what information is reflected and when the statement of financial position and statement of comprehensive income should be prepared.

Financial statement	Definition	Main entries
Statement of financial position (Balance sheet)	A statement of financial position is an indication of the financial position (assets and liabilities) of the enterprise at a certain point in time/on a specific date.	<ul style="list-style-type: none"> • Current assets – cash, stock, debtors • Non-current assets – buildings, machinery, equipment, vehicles • Other assets – copyright, licences, notes receivable • Current liabilities – accounts payable, notes payable, taxes payable within one year • Non-current liabilities (long-term liabilities) – mortgages, long-term bank loans over a period longer than one year • Owner's equity – the investment owners have in the enterprise in the form of capital
Statement of comprehensive income (Income statement)	A statement of comprehensive income is a summary of the income and expenditure (profit or loss) of the enterprise over a specific period of time, for example a financial year.	<p>Sales</p> <p>– Cost of sales</p> <p>= Gross profit</p> <p>– Expenses</p> <p>= Net profit</p>



Watch these videos that explain the different types of financial statements:

<https://www.youtube.com/watch?v=0XtjiL6tCaM>

<https://www.youtube.com/watch?v=c1OvdTWNNL8>

3.3.1 How to determine the cost of sales

There are different ways to calculate the cost of sales, based on the type of enterprise. We distinguish between retailing/wholesaling and a manufacturing enterprise.

Retailing/wholesaling enterprise	Manufacturing enterprise
Opening stock (at the beginning of the period) + Purchases (during the period) – Closing stock (at the end of the period) = Cost of sales	Finished products (difference between opening and closing balance) + Work in progress – half-finished products (difference between opening and closing balance) + Raw materials (difference between opening and closing balance plus purchases during the period) + Direct labour + Direct factory overheads = Cost of sales

3.4 FINANCIAL RATIO ANALYSIS

One of the tasks of the financial manager is financial analysis. The financial performance of the business can be analysed by using ratios. Your prescribed textbook discusses the different groups of ratios and indicates how the ratios should be interpreted. This will enable you to understand the role and use of ratios in financial analysis.

A financial ratio, as you will see, is a tool for analysing financial statements. A ratio is a figure that indicates the relationship between two figures or groups of figures in the financial statements of the business (particularly the statement of comprehensive income and the statement of financial position).



Study the section “Financial ratio analysis” in your prescribed textbook.

3.4.1 Liquidity ratios

- *Definition:* Liquidity is the ability of the enterprise to make the necessary payments regularly and on time.
- *Examples:* Payments of monthly accounts such as rent, salaries, interest, suppliers, water and electricity.

Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio (acid-test ratio)	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$
Working capital	Working capital = Total current assets – Total current liabilities



Activity 3.1

What is the difference between current assets and current liabilities?

.....

3.4.2 Profitability ratios

- **Definition:** Profitability ratios show the relationship between the net income earned over a certain period and the capital used/invested to generate the income.

Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$
Net profit margin	$\frac{\text{Net profit after tax}}{\text{Sales}}$
Return on assets	$\frac{\text{Net profit} + (\text{Net interest expense})}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit}}{\text{Owner's equity}}$

3.4.3 Activity/turnover ratios

Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}}$
Accounts receivable turnover	$\frac{\text{Credit sales}}{\text{Accounts receivable}}$

3.4.4 Leverage/solvency (debt) ratios

- **Definition:** Solvency is the ability of the enterprise to pay its debts, even if the enterprise ceases to exist.
- **Meaning:** The total assets must exceed the total liabilities (loans).

Debt ratio	$\frac{\text{Total assets} - \text{Total equity}}{\text{Total assets}}$
Gearing ratio	$\frac{\text{Long-term debt}}{\text{Long-term debt} + \text{Total equity}}$
Times interest earned	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$
Debt-to-equity ratio	$\frac{\text{Total assets} - \text{Total equity}}{\text{Total equity}}$

3.4.5 Break-even analysis

- *Definition:* The number of units that must be sold in order for the income and expenditure to be equal.
- *Meaning:* The point where the net profit is equal to R0, that is, neither a profit nor a loss is shown.

Break-even point in units	$\frac{\text{Fixed costs}}{\text{Price per unit} - \text{Variable cost per unit}}$
Break-even point in rand value	$\frac{\text{Fixed costs}}{\text{Gross profit margin \%}}$



Follow these links for some additional reading and a quiz on financial ratios:

<http://www.demonstratingvalue.org/resources/financial-ratio-analysis>

<http://www.oercommons.org/courses/profitability-ratios/view>

<http://www.oercommons.org/courses/cash-flow-statements-quiz/view>

3.5 FINANCIAL PLANNING

Financial planning involves determining the capital needs of the business, making decisions on how these needs will be financed, and making decisions on how the capital of the business can be employed to achieve the main objective of wealth maximisation.

Financial planning begins with forecasting the future capital needs of the business in the short, medium and long term. To understand forecasts, you first have to know what the components of the capital needs of the business are. These are listed in your prescribed textbook.

3.5.1 The tools of financial planning

- Pro forma financial statements
- Ratio analysis
- Break-even analysis
- Pricing formulas and policies
- Pro forma cash-flow statement
 - Cash from operating activities
 - Cash generated from investing activities
 - Cash generated from financing activities



Study the section "Financial planning" in your prescribed textbook.

3.5.2 Short-term financial planning

Short-term financial planning involves planning the application of the working capital, that is, the short-term resources that are used to manage the enterprise on a daily basis.

The components of working capital

- Cash and cash equivalents
- Accounts receivable
- Inventories
- Accounts payable
- Short-term loans and overdrafts
- Accrued expenses and taxes payable

3.5.3 Long-term financial planning

Long-term financial planning involves preparing a strategic plan and forecasting the financial statements over annual periods of three to five years in the future.

Steps to develop effective long-term plans:

1. Determine your personal objectives and how they affect your willingness and ability to pursue financial goals for your business.
2. Set goals and objectives for the business.
3. Develop long-range plans that enable you to attain your goals and objectives.
4. Focus on financial, human and physical requirements.
5. Study methods of operation, product mix, new market opportunities and other factors.

3.5.4 Forecasting

As part of financial planning, forecasting needs to be done for small businesses, particularly on a short-term basis. This process estimates future business performance based on the actual results from previous periods.

3.5.5 Preparation of pro forma statements

The preparation of pro forma statements will require assembling data from prior financial statements which include:

- previous sales levels
- past gross percentages
- average past general, administrative and selling expenses necessary to generate general sales volume
- trends in the business's need to borrow

Business information needed for forecasts:

- plant capacity
- competition

- financial constraints
- personnel availability
- industry-wide factors



Watch this video on the importance of financial planning and the financial planning process:

<https://www.youtube.com/watch?v=ggv21pNgbtM>



Study the section “Raising capital” in your prescribed textbook.

3.6 RAISING CAPITAL

What is capital?

- *Definition:* Capital is the money available to the enterprise for the purchasing of goods and services, with a view to generating an income for the enterprise.

What is the capital need?

- *Definition:* The capital need refers to the need for money to obtain goods and services with which the enterprise can generate an income.

3.6.1 Sources of capital

There are five types of sources from which the business can obtain capital, namely internal sources, trade creditors, borrowed funds from banks, sale of ownership interest in the business, and disposal of non-current assets:

Internally generated capital	<ul style="list-style-type: none"> • This is the most critical and main source of capital. • Capital is raised from the operations of the business.
Trade creditors or suppliers of inventory	<ul style="list-style-type: none"> • The business uses its reputation with suppliers to gain access to bulk stock.
Borrowed funds from banks and other lenders	<ul style="list-style-type: none"> • The decision to borrow funds is based on the affordability to do so. • Repayments are made from profits generated by the business.
Sale of an ownership interest in the business to other equity investors	<ul style="list-style-type: none"> • Shared ownership arises from selling an interest in the business. The business must be formally registered as a limited liability company. • Buying shares is a common way of investing.
Disposal of non-current assets	<ul style="list-style-type: none"> • Non-productive assets can be liquidated to provide capital for short-term needs.

3.6.2 Causes of additional capital needs

There are various factors that could create a need for additional capital. The most common causes of additional capital needs are:

- sales growth that leads to more investments in stock
- an increased volume of accounts receivable
- entrepreneurs needing cash for business growth
- efficiency drives
- quantity discounts
- seasonal factors
- changes in interest rates after a loan is granted
- local or national economic conditions
- low retained profits

3.7 CREDIT AND COLLECTION METHODS

Credit has become a way of life. It is an integral part of the economy in which the business operates. The purpose of credit is to satisfy needs by offering goods and services that will not be paid for immediately. Credit stimulates the economy and helps it to grow.

Therefore credit can be described as a medium of exchange that makes it possible to obtain goods, services or money in the present on the basis of a promise to pay for these in the future.

3.7.1 Managing receivables

- Credit must be extended to customers on competitive terms, so that sales will not be lost.
- Long overdue accounts should, however, be avoided.
- Credit extensions will be advantageous to marketing.
- Potential problems can be eliminated through investigation and sound judgement when granting customers credit.

3.7.2 Credit applications

Factors to consider when evaluating a credit applicant:

- the applicant's ability to pay, based on income and other financial obligations
- the applicant's willingness to pay, determined from the applicant's credit history
- the potential profitability of the account



Study the section "Credit and collection methods" in your prescribed textbook.

3.8 CASH-FLOW PLANNING

Cash is a four-letter word that has become a curse for many small businesses. Lack of planning for this valuable asset has driven countless small businesses into bankruptcy. Cash-flow planning can spell the difference between success and failure for your business.

For entrepreneurs to manage and plan their cash flow effectively, it is important for them to look beyond the bottom line of their financial statements and focus on what it takes to keep the business going, in other words their cash.

3.9 SUMMARY

Chapter 3 dealt with all the aspects of financial management. Any person who establishes a business enterprise will naturally want to make a success of it. However, without proper management of the enterprise's finances, it will not be possible to achieve the maximum return on the capital invested in it.

Financial management cannot function in isolation. To manage the financial function effectively, financial managers must have knowledge of various financial aspects. They are also responsible for managing all the facets of the financial function efficiently. The aim of this function is to make the best possible contribution to the attainment of the business's objectives within the broad framework of its strategies and plans.

A business enterprise is created when a need in the market for a product or service is identified. However, the consumers must be made aware of your product or service, otherwise no one will buy it. It is the marketing function that is responsible for introducing the product/service to the consumers, as well as the actual transfer of the product/service to the consumers. In chapter 4 we will discuss all the activities that make the transfer of a product/service to consumers possible.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 3, you can proceed with chapter 4.

LEARNING UNIT 4

THE MARKETING FUNCTION

OVERVIEW

The marketing function in your business is very important. By marketing your product or services you generate an income. The marketing function in the new era can be described as the process of determining customers' needs and wants and then providing customers with goods and services that meet or exceed their expectations. In other words, the goal of the marketing function is to find a need and satisfy it.

STUDY CHAPTER 4 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *define and explain what marketing is*
- *explain the concept of exchange*
- *describe the marketing activities*
- *discuss the four main marketing orientations*
- *explain the marketing process*
- *discuss the marketing function in a business*



Key concepts

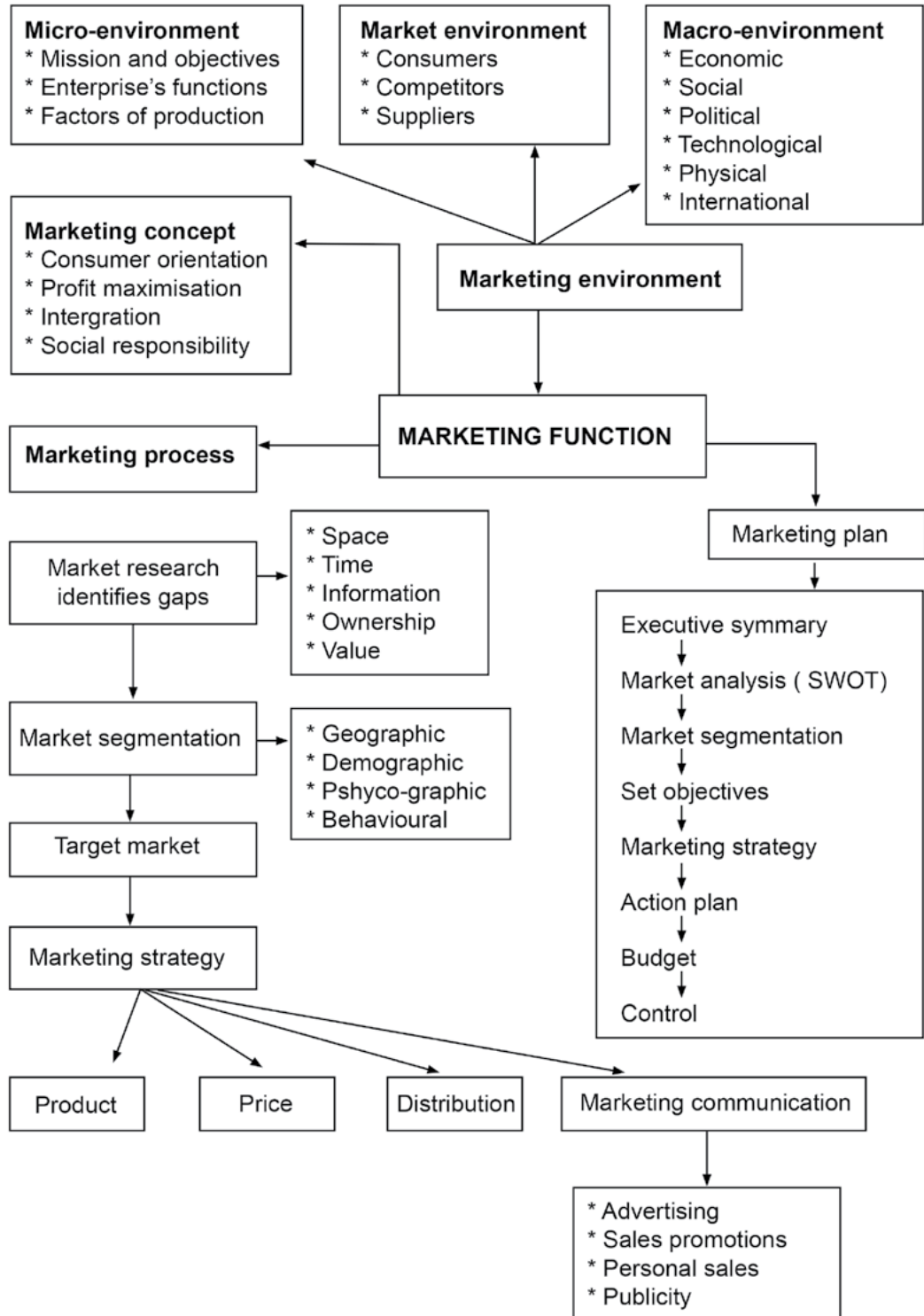
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- micro-environment
- market environment
- macro-environment
- marketing concept
- consumer orientation
- profit maximisation
- integration
- social responsibility
- marketing process
- market research
- market segmentation
- target market
- marketing strategy
- product
- price

- distribution
- marketing communication
- marketing plan



Mind map for learning unit 4



4.1 INTRODUCTION

Chapter 4 (The marketing function) in your prescribed textbook discusses exactly what marketing entails, as well as the marketing environment, the marketing mix, and the marketing plan. These are the main aspects of marketing within an enterprise.



Activity 4.1

Do you think the marketing function has always had a customer-oriented approach? Discuss the reasons for your answer with your fellow students and e-tutors in the discussion forums.

.....



Study the section “Key components of the marketing function” in your prescribed textbook.

4.2 THE MARKETING FUNCTION

- *Definition:* The marketing function deals with the transfer of products/services to the consumer, as well as the activities that make this transfer possible.
- *Meaning:* This function is responsible for selling the products/services of the enterprise to the consumers.

The activities that must be executed to make the transfer of products/services possible are market research, market segmentation, deciding on the target market, deciding on the marketing strategy and compiling a marketing plan.

4.2.1 Three different types of businesses

Production-oriented	Focuses on the internal capabilities of the enterprise instead of on the needs of consumers
Sales-oriented	Focuses on high sales figures and aggressive sales techniques
Market-oriented	Focuses on satisfying consumers' needs while meeting the objectives of the enterprise



Activity 4.2

What does the marketing strategy or marketing mix refer to? See your prescribed textbook for an explanation.

.....

4.2.2 The marketing concept

Consumer orientation	The enterprise has to concentrate on the needs and wants of consumers.
Profitability	The primary objective of the enterprise should be realised over the long term, yet not become such an obsession that it endangers the short-term survival of the business.
Integration	Co-operation between the functions of the enterprise is necessary to enable the enterprise to function as a whole in order to market the products/services successfully.
Social responsibility	The enterprise must comply with legislation and realise its responsibility towards the community.



Access this link for some additional reading on the principles of the marketing concept.

<https://courses.candelalearning.com/marketingxcandelaxspring2016/chapter/reading-the-marketing-concept-2/>



Study the section “The nature of marketing” in your prescribed textbook.

4.3 THE NATURE OF MARKETING

4.3.1 Marketing

- **Definition:** Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (American Marketing Association, 2016).
- **Meaning:** Marketing is the process of planning and executing the conception, pricing, distribution and marketing communication of ideas, products and services to create exchanges that satisfy individual and business goals.



Activity 4.3

Can you give examples of how products were marketed to you by companies in your environment?

.....



Watch this video on the definition of marketing:

<https://www.youtube.com/watch?v=b52AAyaFJ8U>

4.3.2 Exchange and marketing

Every deal involves some form of exchange between the enterprise (the place of production) and the consumer (the place of consumption).

4.3.3 The gaps between production and consumption

Space gap	A geographical space (distance) exists between the manufacturer and the consumer.
Time gap	This is the gap between the time of production and the time of consumption.
Information gap	Clients should be informed about the products (marketing communication).
Ownership gap	The product only becomes the property of the consumer once the consumer has paid for it.
Value gap	The seller and buyer should agree on an acceptable exchange rate (price). If the buyer (consumer) does not feel that the price is acceptable, he/she does not attach the same value to the product as the seller does.



Activity 4.4

Give an example of how the information gap between production and consumption could be overcome within a service enterprise. Discuss your answer with your fellow students and e-tutor.

.....



Study the section "The marketing activities" in your prescribed textbook.

4.4 THE MARKETING ACTIVITIES

The following marketing activities are needed to bridge the gaps between production and consumption:

Primary activities	Description
Transport	<ul style="list-style-type: none"> • Transport is needed to deliver the product to the consumer in the quickest and safest way. • Transport bridges the space gap.

Auxiliary activities	Description
Sourcing and supplying information	<ul style="list-style-type: none"> • The seller needs information on who and where the buyers are. • The seller supplies information to the buyers through marketing communication. • This bridges the information gap.
Standardisation and grading	<ul style="list-style-type: none"> • The products should conform to specific norms or standards. • Standardisation and grading bridge the value gap.
Storage	<ul style="list-style-type: none"> • Warehouses are used for storage – for example for seasonal production. • Storage bridges the time gap.
Financing	<ul style="list-style-type: none"> • Costs are incurred in the transfer of products from sellers to buyers. • Financing bridges the ownership gap.
Risk-taking	<ul style="list-style-type: none"> • The owner of products is exposed to possible loss or damage. • The risk is carried by both the buyer and seller. • Ownership is transferred from one person to another. • Risk-taking bridges the ownership gap.

4.5 RELATIONSHIP MARKETING

- Relationship marketing strives to establish long-term relationships between the enterprise and stakeholders or interest groups.
- These groups include current and potential consumers, the public, the government, suppliers and employees.
- Everybody in the business should co-operate to ensure the highest consumer satisfaction with product and service quality.

4.6 THE MARKETING PROCESS

The marketing process is a complex process which is normally carried out by the marketing department in larger companies. The marketing department needs to stay up to date with internal and external trends and influences, in order to adapt the market offering in order to meet the changing needs and preferences of the different target markets.

4.6.1 The marketing environment

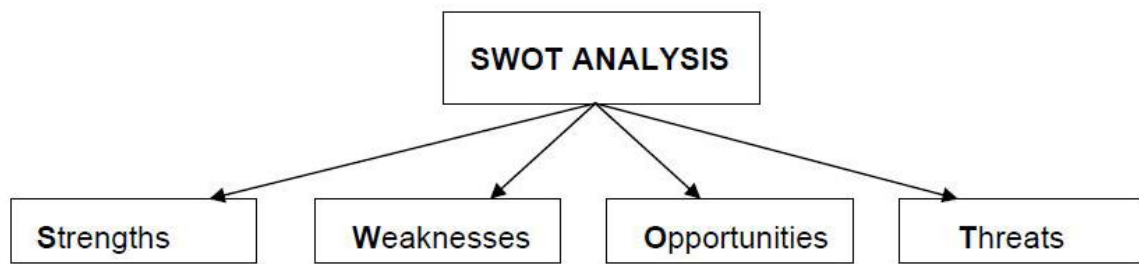
No enterprise functions in isolation – all enterprises operate within a marketing environment. An enterprise has to constantly monitor variables in the environment to determine how these variables affect the enterprise, its customers as well as its competitors.

The marketing environment consists of three components:



(a) Compile a SWOT analysis

For any enterprise to be successful, it must be aware of the influences that the variables in the environment have on the enterprise. The entrepreneur should therefore conduct a SWOT analysis to determine the various internal strengths and weaknesses and external opportunities and threats, so that these factors can be taken into account in the decision-making process.



<p>Strengths</p> <ul style="list-style-type: none"> * Good location * Sufficient capital * Experienced labour * Experience in management * Quality products 	<p>Weaknesses</p> <ul style="list-style-type: none"> * Premises too small * Lack of capital * Inexperienced staff * Lack of management skills * Product quality below standard
<p>Opportunities</p> <ul style="list-style-type: none"> * No competition in the area * Cheaper supplies of raw materials * Technologically advanced machinery * Entering new markets * Can include other products * Can expand enterprise 	<p>Threats</p> <ul style="list-style-type: none"> * Competition * Unreliable suppliers * Outdated machinery * Increase in interest rates * Crime in the area * Consumer boycotts

Please note:

The above are only a few examples – your SWOT analysis will depend on your particular situation. Remember that you cannot list the same example as a strength as well as a weakness – it can't be both. The same applies to opportunities and threats.

Strengths and weaknesses are found in the micro-environment, whereas opportunities and threats manifest in the market and macro-environment.



Access the following website, which features a video and additional reading on SWOT analysis:

https://www.mindtools.com/pages/article/newTMC_05.htm



Activity 4.5

Can you do a SWOT analysis on your favourite shop or a restaurant you visit regularly? Discuss your answer with your fellow students and e-tutors in the discussion forums.

.....

(b) The mission

- *Definition:* The mission of an enterprise is a declaration of the enterprise's reason for existence.
- *Meaning:* The mission statement defines the purpose of the enterprise and identifies the enterprises' products, services and customers.

(c) Marketing objectives

The marketing objectives need to be clearly linked to the mission of the enterprise and must meet the following requirements:

- The objectives should relate to a single, specific topic.
- The objectives should relate to a result.
- The objectives should be measurable and specific.
- The objectives should be challenging, yet achievable.
- The objectives should be set within a timeframe.

(d) The variables in the market environment

The semi-controllable market environment consists of suppliers, consumers and intermediaries/competitors.

The enterprise can operate in any of the following types of markets:

- consumer markets
- industrial markets
- reseller markets
- government markets
- international markets



Activity 4.6

In which type of market will an enterprise operate if they buy goods for further processing and for use in their own manufacturing process? Substantiate your answer in no longer than one paragraph.

.....

4.6.2 Market segmentation

- *Definition:* Market segmentation is the division of the total market into smaller segments with certain similarities or common characteristics.
- *Meaning:* The total consumer market, which consists of consumers who are all different (heterogeneous), is divided into groups of people who are all similar (homogeneous).

How do we do market segmentation?

Geographic	<ul style="list-style-type: none"> • Where are the consumers/where do the consumers stay (area)? • Where do they work?
Demographic	<ul style="list-style-type: none"> • Who are the consumers – what is their level of education/occupation/income? • What are their average age/gender/social class and the average size of their households?
Psychographic (lifestyle)	<ul style="list-style-type: none"> • What products do they buy/what do they spend money on? • How do the consumers spend their free time/entertain?
Behavioural (buying pattern)	<ul style="list-style-type: none"> • When do they buy the products? • How often do they buy?

It is important to remember that the type of questions that you will ask under each segment will depend on the **type of enterprise** and the **type of products** you are going to offer.

From the above segments, you can **choose a specific market segment** or segments, at which you will **direct your product or service**.



Read the following article on how over-segmentation could be harmful to your enterprise:

<http://www.widerfunnel.com/6-reasons-your-segmentation-is-hurting-you/>

4.6.3 Determine the target market

- *Definition:* Your target market is the specific market segment or segments at which you will direct your product or service.
- *Meaning:* These are the people to whom you are going to sell your products. They are the portion of the total market that you can reach with your product or service.

4.6.4 The marketing strategy/mix

- **Definition:** The marketing strategy/marketing mix is the combination of the product, price, distribution and marketing communication in the most suitable manner to ensure the sale of the product or service of the enterprise.
- **Meaning:** The marketer must decide on the products that will be offered, the price at which the products will be sold to the consumers, the distribution channel that will be used to transfer the products to the consumers and the marketing communication methods that will be used to make the consumers aware of the products.

The marketing strategy consists of four elements:

Product	<ul style="list-style-type: none"> • This is the product or service that you offer based on the identified need or opportunity. • It includes colour, size, packaging, quality, guarantees and after-sales service.
Price	<ul style="list-style-type: none"> • This is the selling price of the product or service that you offer. • It should be profitable (at least cover the costs), but also affordable and competitive.
Distribution (place)	<ul style="list-style-type: none"> • You have to ask yourself how the product will reach the market. • The distribution of the product is the transfer of the product from the manufacturer to the consumer. • Direct distribution occurs when you sell directly to consumers. • Indirect distribution takes place when you sell to wholesalers, retailers, or agents.
Marketing communication (promotion)	<ul style="list-style-type: none"> • You have to ask yourself how you will make consumers aware of your product. • The four elements of marketing communication are <ul style="list-style-type: none"> – advertising (radio/TV, newspapers, billboards, pamphlets) – sales promotions (special offers, discounts, gifts, trade-ins) – personal sales (sales staff, door-to-door sales, catalogues) – publicity (sponsorships, donations, articles in magazines)



Activity 4.7

What is the most deciding element for you as a consumer when buying something? Discuss your answer with your fellow students and e-tutor.

.....



Watch the following videos on how to create value in your enterprise through the marketing mix and how to apply the 4 Ps in your small business:

<https://www.youtube.com/watch?v=W7kUMWzkS3o>

https://www.youtube.com/watch?v=VW_oUD1qK50



Study the section “The marketing plan” in your prescribed textbook.

4.7 THE MARKETING PLAN

- *Definition:* A marketing plan is a detailed plan of how a product or service will be marketed and the time-related details for carrying out the plan.

A marketing plan will help the entrepreneur to:

- identify changes in the marketing environment and determine ways to react to them
- have a better understanding of the enterprise’s position in the market as far as consumers and competitors are concerned
- have a better idea of the objectives (the plan will act as a guide to reach goals)
- establish how to obtain resources for the intended plan
- keep staff informed about what is expected of them



Watch the following quick guide to creating a marketing plan for your small business:

<https://www.youtube.com/watch?v=N3XX1QekLc4>



Here are some tips for creating a marketing plan for your small business:

<http://southafrica.smetoolkit.org/sa/en/content/en/144/Create-Your-Marketing-Plan>



Study the section “The steps in a marketing plan” in your prescribed textbook.

4.7.1 The steps of the marketing plan

The steps of the marketing plan are illustrated here:

Step 1: Executive summary

This is a summary of the marketing plan which indicates what you intend to achieve. It includes information about the product or service you are going to offer, who your target market is, what income you expect to earn and who the competitors are. It should be short, concise and to the point, and easy to read.



Step 2: Market analysis

Market research
Market demand/attractiveness
Product life cycle
Enterprise analysis
Competitor analysis



Step 3: Market segmentation and target market selection (Customer analysis)

a) Target-market selection criteria

Determining if a need exists in a specific area, determining the potential of an idea.

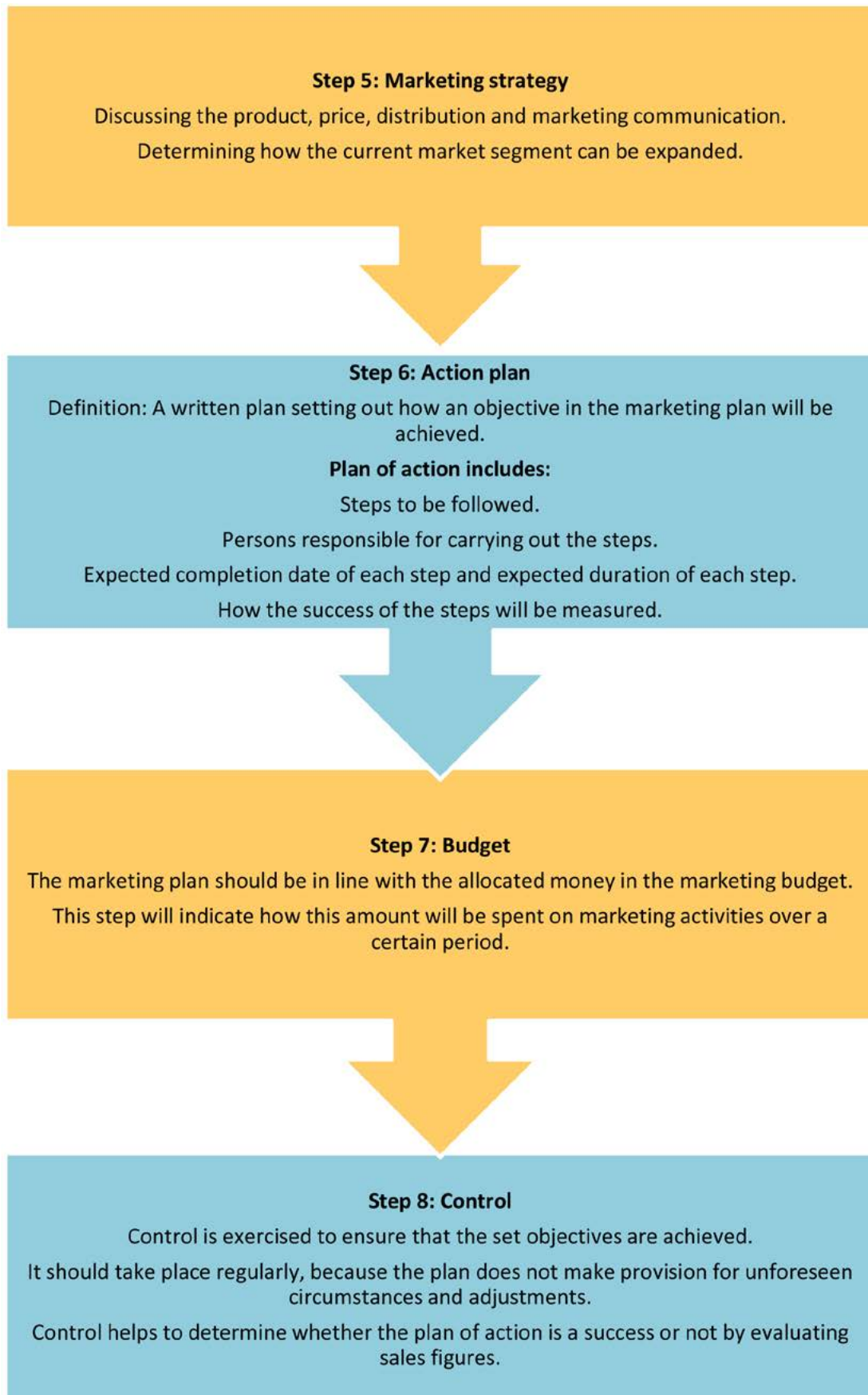
b) Customer characteristics

Evaluating the customers according to geographical, demographic, psychographic and behavioural criteria.



Step 4: Setting objectives

Determining what you want to achieve with the marketing of your product. Objectives should be realistic, quantifiable and linked to a certain period.



4.8 SUMMARY

By marketing your products or services, you generate an income for your business. The marketing function is responsible for offering a need-satisfying product/service of an acceptable quality at an affordable price, the distribution of the product/service to consumers, and for making consumers aware of the product/service.

This chapter in your prescribed textbook explains the marketing function. The marketing function represents the group of activities which concerns the transfer of goods and services from the producer to the consumer. These activities are related to the needs of consumers and the availability of goods and services to satisfy those needs at the right place and time, in the right form and quantity, and at a reasonable price, so that as many as possible of these goods and services can be sold. Once you understand the marketing function, you will have a clear idea of the importance of marketing in the business.

Specific marketing objectives must be set and marketing plans must be compiled according to these objectives. These marketing plans must indicate how the business will achieve the marketing objectives. The marketing plan is discussed as a step-by-step process. The marketing plan, like a road map, serves to guide you to where you want to be and indicates how you should set about getting there. If you follow these steps, you can draw up a plan of action for marketing your product or services in a practical and structured manner.

However, before you can sell a product or service, you must **have** a product or service to sell. In any business, whether it manufactures a product or renders a service, a transformation process occurs. The operations function is responsible for the transformation of inputs (the four factors of production) into outputs (the final products and/or services). In chapter 5 we will discuss the transformation process and all the systems or processes that must be used to manufacture a product or to create a service.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 4, you can proceed with chapter 5.

LEARNING UNIT 5

OPERATIONS MANAGEMENT

OVERVIEW

The basic purpose of any business is to make a profit. However, for a business to make a profit, it must make or sell goods or render services. All enterprises need an operations function, whether they manufacture products, render services or sell products to the consumers. This learning unit focuses on the terms, concepts, principles and functions of general operations management.

STUDY CHAPTER 5 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- understand operations management (OM) in its widest context
- explain the dynamics of OM and innovation
- list the five basic functions of OM
- list the principles of OM that promote value, time and lean production
- describe the three areas of planning and control of the operations transformation process
- define process management and the lead-time elements of a process
- list the typical OM performance objectives
- distinguish between the elements and components of productivity and increased productivity
- distinguish between lean and agile supply
- distinguish between the three main categories of operations systems
- identify layout types
- do fixed capacity planning and adapt capacity
- do basic production scheduling
- understand the concepts of operations improvement and total quality management (TQM)
- understand the basic principles of maintenance and Safety, Health and Environmental (SHE) management



Key concepts

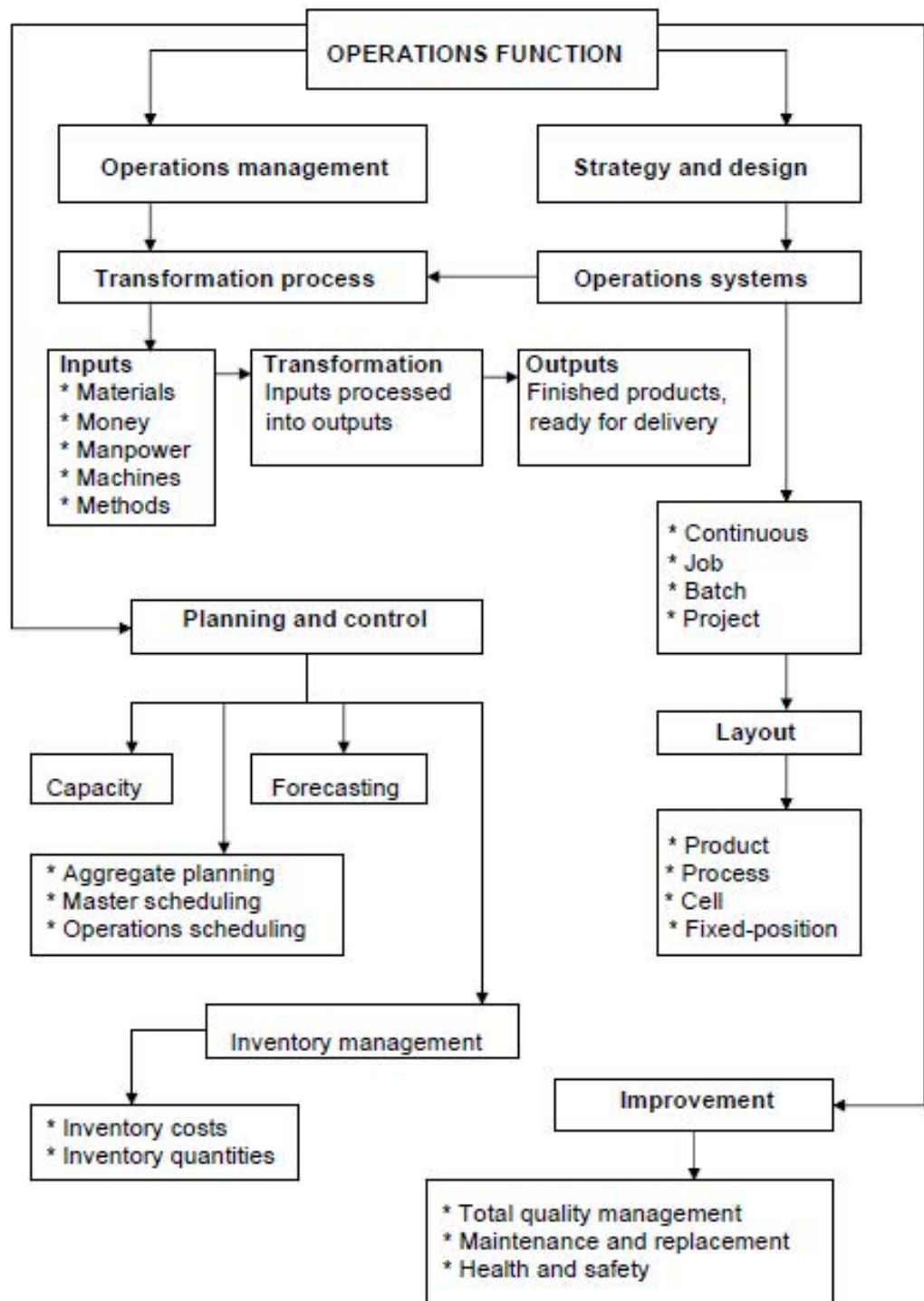
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- operations function
- operations management
- product/service
- value and time

- transformation process
 - lead time
 - performance objectives
 - lean supply and agile supply
 - operations systems
 - types of layouts
 - long-term, medium-term and short-term operations planning
 - capacity planning
 - aggregate planning and master scheduling
 - operations scheduling
 - forecasting
 - the five M's
 - inventory costs
 - carrying costs
 - break-even point
 - operations improvement
-



Mind map for learning unit 5



5.1 INTRODUCTION

Previously, business economists used the term “production management” when they referred to the management methods and techniques used to manufacture products. The concept of operations management applies to all businesses and is a broader concept than production management.

The purpose of the operations function is to make sure that there are goods and services to sell to consumers. The operations function is responsible for the actual manufacturing of products or rendering of services. On demand of the consumer, the business must make these goods and services available. For the operations function to function effectively, the factors of production (entrepreneurship, capital, labour and natural resources) must be utilised for the purpose of producing goods and services. The operations process refers to the transformation of the factors of production into goods and services that can satisfy the needs of the consumers. Normally the process of transformation takes place within the manufacturing field. Operations management is about change, creativity, productivity and adding value.

5.2 THE DYNAMICS OF OPERATIONS MANAGEMENT

Operations management in the business can be described as the ability of the business to innovate. In other words, operations management is closely linked to the creative attitude of the entrepreneur. Although it is important for the entrepreneur to think of as many small-business ideas as possible, only one idea can eventually be used to create a small business. This idea involves change, creativity, productivity and adding value.

5.2.1 Primary functions of operations management

- Product and service design
- Demand and capacity planning
- Operations system design
- Production planning and control
- Improvement, problem-solving and maintenance

5.2.2 Important factors of operations management (the creative process that assists transformation)

- Creative designs (*Designs must be cost-effective*).
- Technology and innovation (*Technology is associated with new gadgets, devices, machines or processes*).
- Innovation management (*Innovation management is about value-capturing and value-creation*).
- Innovation behaviour (*This is the innovative behaviour of each individual entrepreneur in his/her field*).
- Value and time (*The essence of any transformation process is to add value and eliminate waste*).



Study the section "The dynamics of operations management" in your prescribed textbook.

5.3 OPERATIONS MANAGEMENT DEFINED

- *Definition:* Operations management is the management of systems or processes that offer products or services.
- *Meaning:* This function is responsible for the physical manufacturing of products or the physical rendering of services.

Operations management in a business is concerned with conversion or transformation processes. Such processes are technologically diverse, embracing both manufacturing (in other words, the conversion of inputs into goods) and the provision of services. Operations are the processes involved in creating goods and services. The purpose of operational management is to make sure that goods and services are available to sell to consumers. Therefore the operations process, as stated earlier, refers to the transformation of the factors of production into goods and services that can satisfy the needs of the consumer. The process is concerned with the conversion of raw materials or semi-processed products into end products.



Study the section "Operations management defined" in your prescribed textbook.



Activity 5.1

What formula would you use to obtain an accurate quotient for productivity?

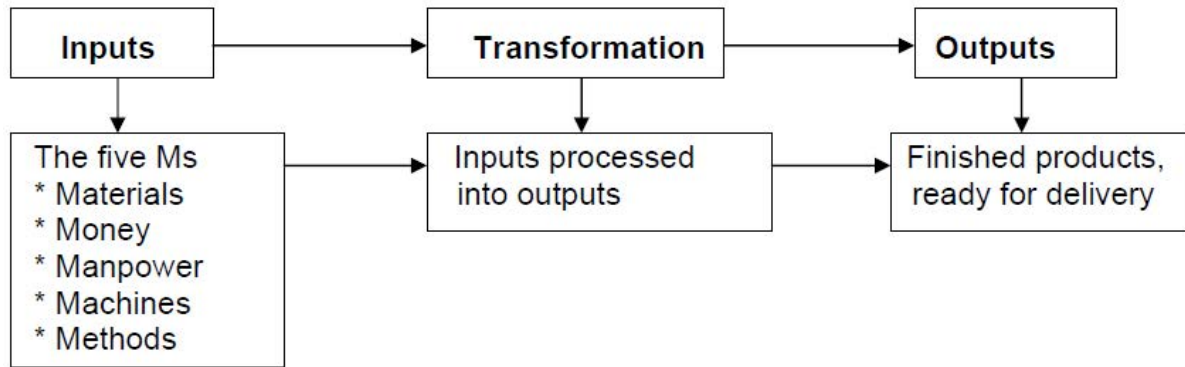
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5.3.1 The transformation process

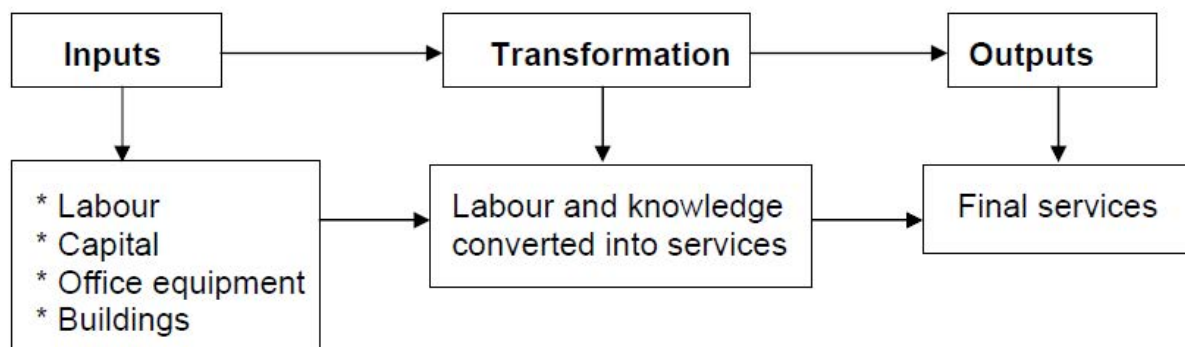
Operations management deals with the planning and control of operations which take place in three areas of the transformation process:

- inputs
- transformation systems
- outputs

(a) The transformation process for the manufacturing of products:



(b) The transformation process for the rendering of services:



Watch this video, which explains the transformation process within a business:

<https://www.youtube.com/watch?v=-TvMAf5Zdao>

5.3.2 Process management

Operations management attempts to reduce or eliminate lead-time elements in a process. The primary lead-time elements are described as follows:

Primary lead-time elements	Description
Queue time	The period during which a job stays in the queue at a work centre
Processing time	The actual time needed to process the job
Set-up time	The time needed to prepare equipment for processing a new job
Waiting time	The idle time between processing a job and its passage to the next work centre
Inspection time	The time needed to compare the actual quality with the standards
Transportation time	The time needed to transport the job from one workstation to another

5.3.3 The performance objectives of operations management

- quality
- dependability
- speediness
- flexibility
- productivity and efficiency
- low cost and affordability



Watch this video, which explains the performance objectives of operations management:

<https://www.youtube.com/watch?v=Zclqo8WqTkc>



Activity 5.2

Apply the transformation process to any daily activity you perform. See if you can identify any of the primary lead-time elements and write them down.

.....

5.3.4 Productivity

More output with the same amount of input increases productivity, but the same level of output, using less input, also increases productivity.

Productivity can be measured by making use of the following formula:

$$\text{Productivity (P)} = \frac{\text{Output income (i.e. usable quantity)}}{\text{Input expenses (available input quantity)}}$$

Productivity can be divided into macro-productivity and micro-productivity:

Macro-productivity	This refers to a nation's entire production – the GDP (Gross Domestic Product). The GDP per capita means the total output of a country divided by its total population
Micro-productivity	This refers to an individual enterprise's operations. It focuses on how well operations perform in terms of value, effectiveness, efficiency, utilisation, impact and quality.



Activity 5.3

How can productivity be further improved in an enterprise? Discuss the possibilities with your fellow students and e-tutor.

.....

5.4 OPERATIONS STRATEGY AND OPERATIONS DESIGN

During the transformation process, the entrepreneur is often expected to make decisions concerning the available resources. Remember that the transformation process is the process by which inputs have to be converted into outputs. Normally the inputs are a combination of the available resources, which include the production machinery, layout, capital and raw materials. It is up to the entrepreneur to decide on the operations strategy that the business must follow, as well as the operations design.



Study the section "Operations strategy and operations design" in your prescribed textbook.

5.4.1 Operations design

Characteristic	Lean supply	Agile supply
Product variety	Low variety	High variety
Product life cycle	Long	Short
Forecasting mechanism	Algorithmic	Consultative/qualitative
Profit margin	Low	High
Market	Predictable	Volatile
Stock demand	Stable and long-term	Immediate availability and volatile



Watch this short video on the difference between lean and agile supply:

<https://www.youtube.com/watch?v=IBg4Topl8dl>

5.4.2 Types of operations/productive systems

- **Definition:** The operations system means the method of manufacturing – how the products are going to be manufactured.



Study the section "Types of productive systems and their characteristics" in your prescribed textbook.

5.5 OPERATIONS PLANNING AND CONTROL

From an entrepreneur's viewpoint, the planning and control part of operations management is quite important. Planning is chiefly concerned with setting objectives and with devising the necessary schemes to achieve these objectives. It is clear that the entrepreneur must perform certain tasks to ensure that the operation's objectives are achieved. Although entrepreneurs cannot afford to neglect any of their tasks, it can be argued that in today's highly competitive market, planning must take priority. These planning tasks can be divided into long-term, medium-term and short-term tasks:

(a) Long-term tasks

These tasks of the entrepreneur are non-recurrent. There are long periods between one decision and another. These decisions relate to fixed-capacity planning and product planning.

(b) Medium-term tasks

These tasks of the entrepreneur consist of planning manufacturing quantities and organising the resources needed. This planning includes the following:

- Aggregate planning, in which the operations manager determines the total number of all the products that will be manufactured for the whole year
- Master scheduling, which is done in order to determine how much of a specific product must be completed within a specific period of time
- Operations scheduling, which refers to the route the product takes and the sequence of events as it moves through the factory
- Capacity planning, which entails determining the size of the enterprise, the equipment needs, the labour needs and the stock planning

(c) Short-term tasks

These tasks of the entrepreneur usually deal with the distribution of work and control.

During the execution of tasks it is important that consistent control should be exercised. By exercising control, the entrepreneur ensures that people carry out instructions according to plan. If the instructions are not carried out according to plan, the entrepreneur exercises control by making the necessary corrections or adjustments during the operations management process.

A production control method that works in one firm may be totally inadequate in another. Consequently there is no single production control method that can be applied in all businesses with the same degree of efficiency.

Factors which are most likely to affect the production control method are the size of the business, the degree of detail required for control, the nature of the production process, the types of products being produced and the nature of the market that is being supplied.



Activity 5.4

Can you give examples of long-term planning? List at least 5 examples and discuss these with your fellow students and e-tutor.

.....



Study the section "Operations planning and control" in your prescribed textbook.



Open the following link to view the toolkit for operations planning and control for the Department of Public Service and Administration of South Africa:

http://www.dpsa.gov.za/dpsa2g/documents/tenders/DPSA002_2015/TOOLKIT%20ON%20OPERATIONS%20PLANNING%20AND%20CONTROL.pdf

The components of operations planning:

(a) Aggregate planning

- *Definition:* This involves determining the demand for a product group (range of products) during a specific period, for example one year.
- *Meaning:* It is the planned production of all the products that the enterprise manufactures or sells over the whole year.

(b) Master scheduling

- *Definition:* The master schedule indicates the planned production per time interval, for example per month/week.
- *Meaning:* This is the planned production of each individual product in the range of products, that is, how many of each must be manufactured per week or per month.

(c) Operations scheduling

- *Definition:* This involves determining the sequence in which jobs and activities are to be completed in the manufacturing plant.

5.5.1 The objectives of demand management

- Long-term objectives – relates to fixed-capacity planning
- Medium-term objectives – relates to aggregate demand

Long-term planning	<ul style="list-style-type: none"> • Fixed-capacity planning – the layout of the factory • Product planning – product development and aggregate forecasting
Medium- to short-term planning	<ul style="list-style-type: none"> • Variable capacity planning • Item forecasting • Master scheduling • Operations scheduling • Inventory management

5.5.2 Categories of forecasting

Forecasting category	Explanation
Qualitative techniques	Based on judgement rather than on actual calculations
Time series analysis/quantitative	Done with the aid of calculations
Causal methods	To determine the cause-and-effect relationship

5.5.3 The five M's of capacity

- methods
- machines
- manpower
- money
- material

5.5.4 Fixed-capacity planning

The elements of fixed-capacity planning:

- occupational safety
- identifying a suitable location
- determining the size of the operations unit
- the layout of the operations unit
- the choice, design and specifications of machinery and equipment

5.5.5 Adapting capacity to a change in demand

If the capacity is smaller than the demand, the operations unit can consider the following strategies:

- differentiation of the product
- acquiring additional fixed assets
- introducing overtime
- introducing additional shifts
- temporary means of production – additional staff for a certain period
- the transfer of capacity from other divisions
- specialisation of products
- acquiring additional machines

If the capacity is greater than the demand, the operations unit can consider the following strategies:

- scaling down the workers corps
- working fewer shifts
- the integration of products

- closing a section of the factory
- phasing out any temporary means of production
- moving surplus capacity



Access the following presentation for some additional information on capacity planning:

<http://www.slideshare.net/aarish9696/capacity-planning-3652764>

5.5.6 The activities of operations scheduling

Operations scheduling comprises four activities:

Timing and routing	<ul style="list-style-type: none"> • Timing – when a specific activity will take place • Routing – where or on which machinery the operation will be performed
Dispatching	<ul style="list-style-type: none"> • Issuing a shop order so that the operation can take place
Control	<ul style="list-style-type: none"> • Establishing the status of the shop order
Expediting	<p>Effective scheduling entails:</p> <ul style="list-style-type: none"> • allowing a realistic schedule and allowing for any essential changes and emergencies • allowing enough time for all the activities • allowing enough time before and after each activity, and between activities • not scheduling all the available capacity of the plant

5.5.7 Forward and backward scheduling

(a) Forward scheduling

This involves beginning in the present and adding the times of all the necessary activities.

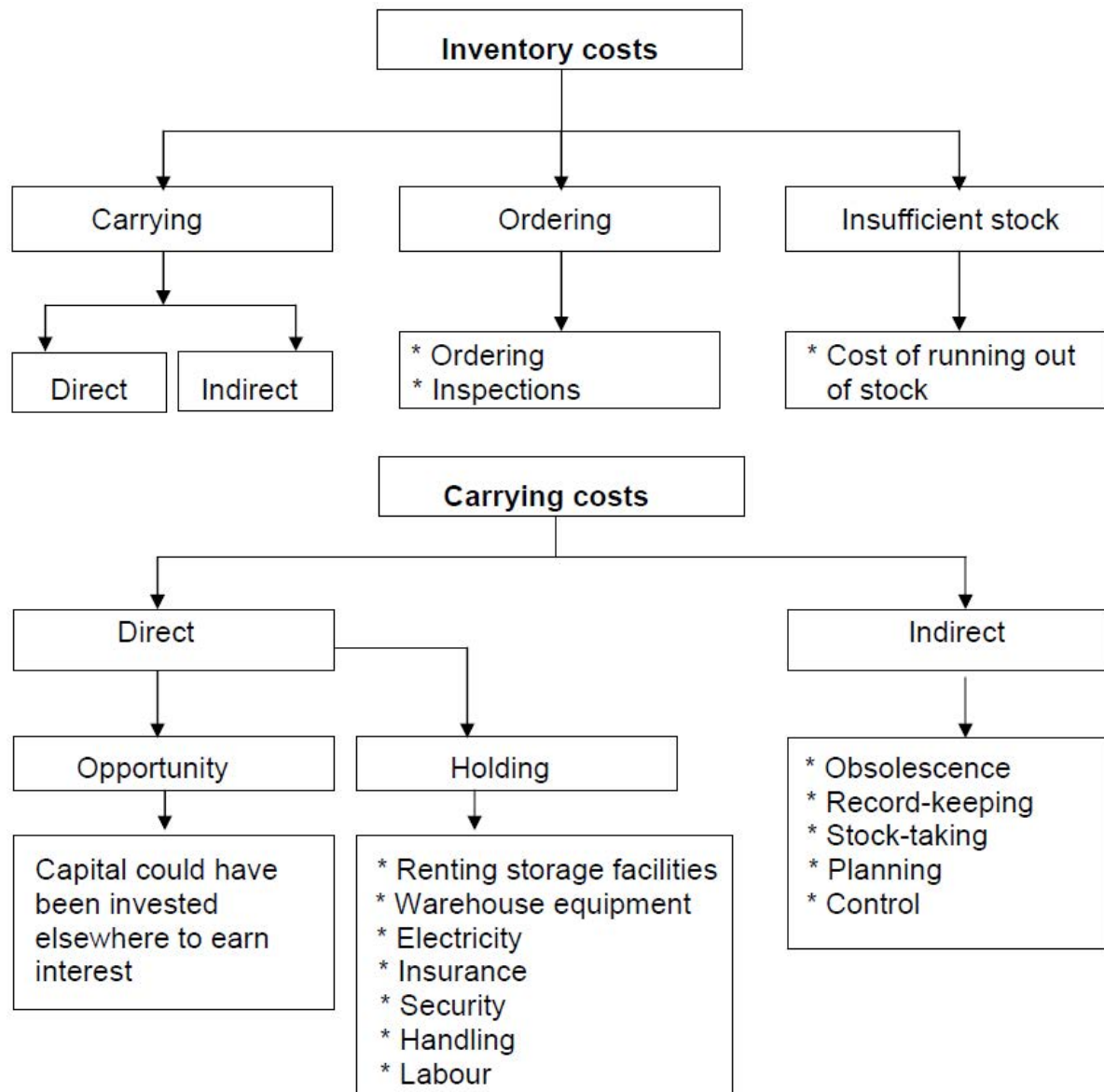
(b) Backward scheduling

This involves beginning at the ending time and subtracting the times of all the activities to arrive at the starting point.

5.5.8 Gantt charts and other techniques

Control can be exercised using various techniques such as Gantt charts and the Johnson's algorithm.

5.5.9 Inventory management



(a) *The cost of insufficient stock*

This refers to the cost of running out of stock. The operations function will come to a standstill if there is no stock available, which implies a standstill in production and therefore a loss in sales.

(b) *Inventory timing by means of the re-order point*

This refers to a certain level of stock at which the stock must be replenished. Safety stock is the stock that must be kept to provide for unforeseen circumstances.

5.5.10 Material requirements planning

This is a computer-based system that determines when orders should be issued and what the planned orders will be.

5.5.11 Determining inventory quantities

Lot-for-lot approach	This approach means that orders must be placed frequently, which results in high ordering costs.
Economic ordering quantity	As soon as the stock reaches a certain level, a fixed order is placed.
Break-even analysis	This determines the volume at which the total revenue is equal to the total costs.
Break-even point in units	Formula: $\text{Units} = \frac{\text{Fixed costs}}{\text{Price per unit} - \text{Variable cost per unit}}$



Watch this short video with an example on how to calculate the economic ordering quantity:
<https://www.youtube.com/watch?v=A88uoWbxG2M>

5.6 OPERATIONS IMPROVEMENT AND TOTAL QUALITY MANAGEMENT

Leadership and quality have a direct influence on the success of a business. The type of leadership that is applied largely determines whether the business will prosper or fail. In practice there are numerous examples of struggling businesses that have been transformed into successes through excellent leadership and quality products. However, there are also many examples of successful businesses that have been ruined by poor leadership and quality.

Therefore leadership and quality are the pivotal points for an entrepreneur, which can cause a business to swing in the direction of success or failure. It is good leadership that ensures that the business objectives are achieved successfully.

Quality refers to the excellence of the entrepreneur's product. The customers' expectations of a product or service must be met and exceeded. Entrepreneurs must ensure attractiveness, reliability, long-term dependability and lack of defects in their products.



Activity 5.5

Do you think a leader has a big impact on a business? Discuss your reasoning with your fellow students and e-tutors in the discussion forums.

.....



Study the section "Operations improvement and total quality management" in your prescribed textbook.

5.6.1 Total quality management

Total quality management is the improvement of all aspects of operations performance and is a holistic approach to quality.

Consumers want the following:

- to be respected and not have any hassles
- products and services that are value for money
- products and services that are reliable and meet their requirements
- products and services that are available on time
- products and services that improve their quality of life

5.6.2 Maintenance and replacement

Defective machinery and equipment can cause the following:

- reduced production capacity
- increased production costs
- lower quality products and services
- threats to safety
- customer dissatisfaction

5.6.3 Preventative management

Preventative management entails:

- training maintenance teams
- determining the possible time of failure
- implementing Japanese principles

5.6.4 Total productive maintenance and improvement

The objective is to improve plant and equipment effectiveness, create a sense of ownership for operators, and promote continuous improvement.

5.6.5 Safety, health and environmental management

An increase in production should not be the only concern – the operations function should also consider the well-being of the employees.

5.6.6 Process technology improves health and safety

Process technology is technology used in the production process that can assist in adding value to the product.

5.6.7 Good housekeeping

Principles:

- Keep floors clean.
- Stack materials neatly.
- Keep doors and drawers closed.
- Return equipment and tools to their proper place.
- Dispose of waste regularly.

5.7 SUMMARY

Operations management requires the integration of various activities and processes to ensure that products or services of a high quality can be provided at an affordable price. The way in which you manufacture your product or create your service will determine the quality and the cost of the end product or service.

It is clear that operations management is a dynamic discipline of business management. Operations management requires the integration of various activities and processes to ensure that the business produces and delivers products or services of a high quality to satisfy the consumer demand. If the operations management of the business is based on good operations management principles, it will give the business a competitive advantage. This competitive advantage means that the business will be superior to its competitors, and will provide valuable products and services to its consumers and, by doing so, maximise its profit.

The purchasing function is responsible for providing the operations function with the necessary means of production to manufacture the products or to create the services of the enterprise. The quality, quantity and cost of these means of production, as well as the time of their delivery, have a direct influence on the efficiency of the operations function. In chapter 6 we will discuss the role and importance of the purchasing function in the enterprise.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 5, you can proceed with chapter 6.

LEARNING UNIT 6

THE PURCHASING FUNCTION

OVERVIEW

For entrepreneurs to be able to sell their products and make a profit, they need inputs like capital, employees, stock and the transformation process. Capital is acquired through the financial function, employees through the human resources function, stock through the purchasing function, and the transformation process through the operations function. This learning unit will focus on the purchasing function.

STUDY CHAPTER 6 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *explain the role and importance of the purchasing function in a business*
- *explain the interdependence between purchasing planning, business planning and the planning of other business functions*
- *explain the centralisation/decentralisation issue of purchasing in a business*
- *explain the performance evaluation of the purchasing function in a business*
- *illustrate and explain the procedure that is followed in businesses for most purchasing transactions*
- *explain the quality issues with the purchasing of materials and services*
- *explain the issue of purchasing quantities and the control of inventories in a business*
- *explain the selection process and the factors influencing the selection of suppliers*
- *briefly explain purchasing prices as part of the total value package and the principal methods of determining prices*
- *briefly explain the internal and external factors influencing the timing of purchases*



Key concepts

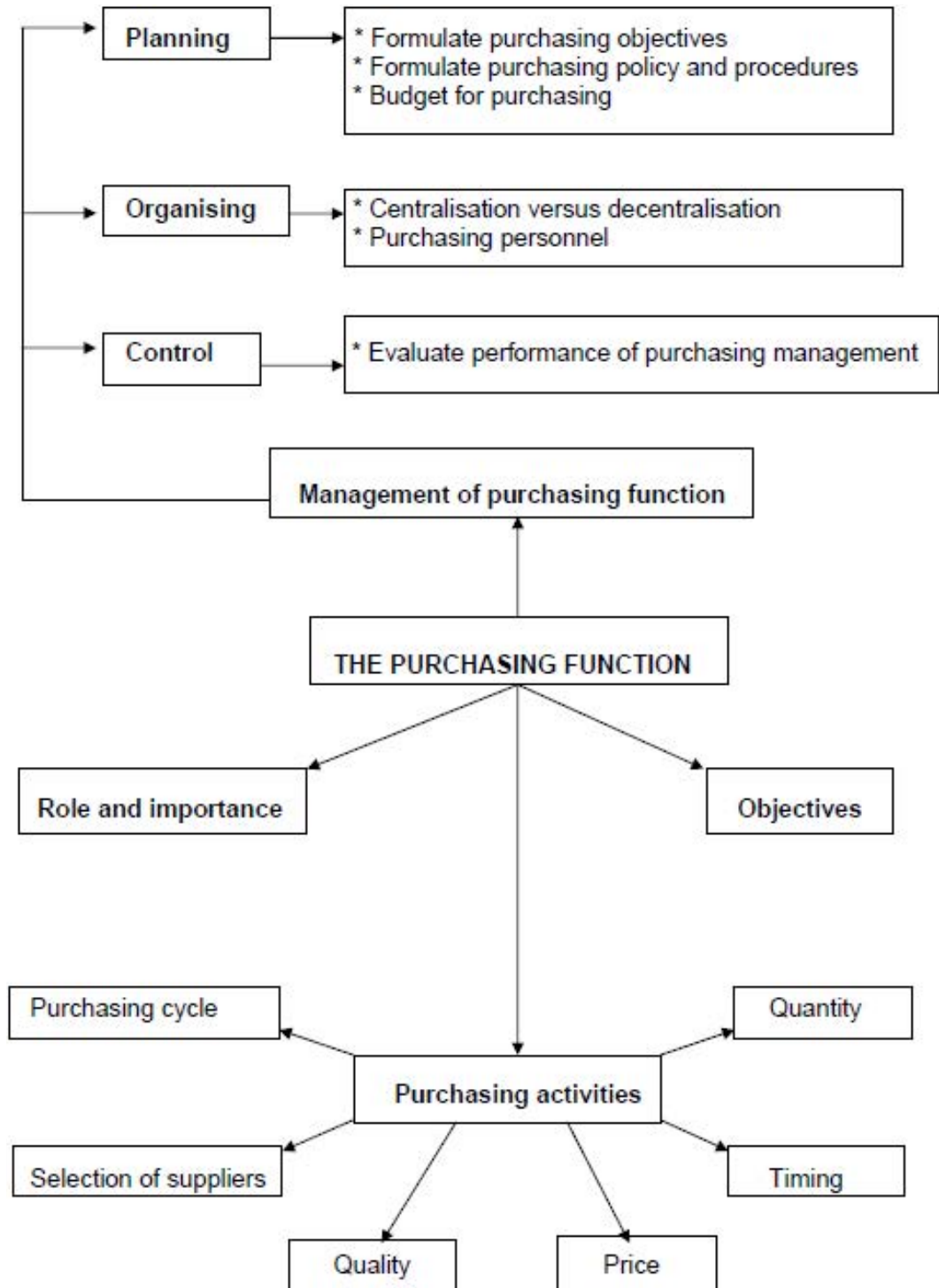
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- purchasing function
- purchasing policy
- purchasing budget
- centralised purchasing
- decentralised purchasing
- purchasing cycle
- "the right quality"
- the quality of the purchased materials

- the quality control process
- inventory costs
- inventory control
- optimum stock level
- ordering systems
- purchasing prices



Mind map for learning unit 6



6.1 INTRODUCTION

The purchasing function is the function that gathers all the relevant information regarding stock and raw materials for production to take place. The purchasing function makes the decisions on where to buy the stock and then initiates the process of getting the right quantities and the required quality at the right price, right place and right time. If this does not happen, the business has nothing to sell and cannot make any money.

The different functions in the business complement each other. All the functions form a unit and they cannot operate separate from each other. Each one is part of the business as a whole. It is generally impossible to choose any function as being more important than the rest. All eight functions have to co-operate to achieve the main objective of the business.

6.2 THE PURCHASING FUNCTION

- *Definition:* The purchasing function must ensure that production means of the right quality are supplied in the right quantities, at the right time, to the right place, from the right suppliers at the right price.
- *Meaning:* The purchasing function is responsible for supplying the raw materials or stock that the enterprise needs to manufacture the products, or to render their services.

6.3 THE IMPORTANCE OF THE PURCHASING FUNCTION

As you can see, the purchasing function plays a really important role in helping a business to achieve its main objective. Without stock, the business cannot sell anything. If it cannot do business, it cannot make a profit and therefore cannot achieve its main objective.

In short, one of the prerequisites for the sustained existence of a business is that the right quantity of goods and services of the right quality must be available to the business at the right time and place. This is the responsibility of the purchasing function. The purchasing function must effectively manage the business's purchases to ensure that there is always enough stock to carry out its activities.

The purchasing function is responsible for buying all the means of production – raw materials, stock, parts, equipment, and machinery – that an enterprise needs to continue with its operations.



Study the section "Importance of the purchasing function" in your prescribed textbook.



Activity 6.1

Do you think an effective purchasing function is extremely advantageous to the competitive position and image of the business? Discuss your answer with your fellow students and e-tutor in the discussion forums.

.....



Here is some useful additional reading on the importance of the purchasing function:

<http://www.yourarticlelibrary.com/material-management/purchasing-its-meaning-definition-importance-and-objectives-material-management/27936/>



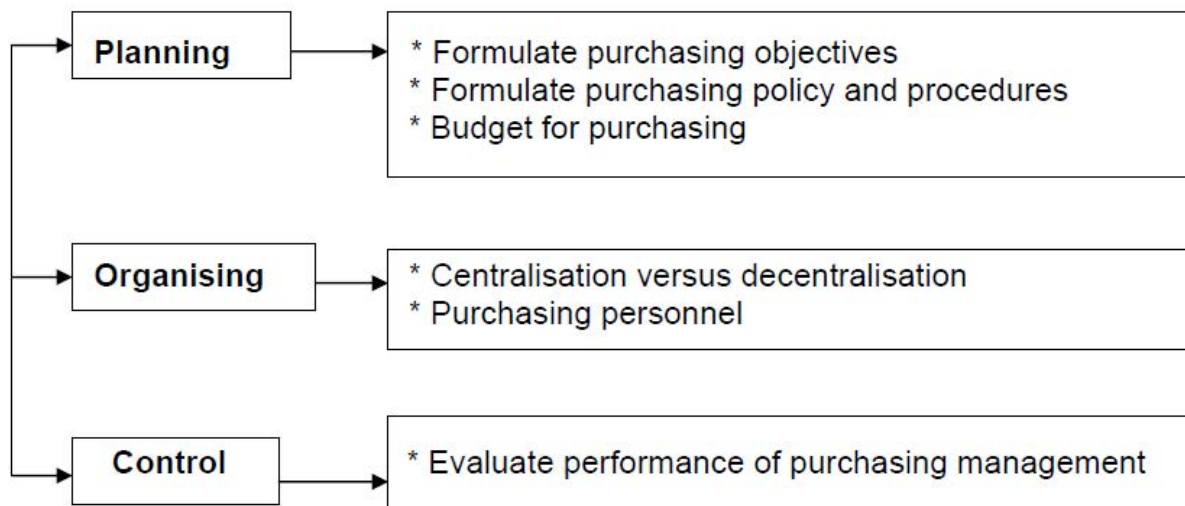
Activity 6.2

Do you think the purchasing function can play an important role in the profitability and survival of a business? Discuss the reasons for your answer with your fellow students and e-tutors in the discussion forums.

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6.4 MANAGEMENT OF THE PURCHASING FUNCTION

The role of general management is to utilise the available resources, and through planning, organising, leading and control create prosperity by means of the different business functions. Thus the needs of consumers can be satisfied and the objectives of the business achieved. Managing the purchasing function entails the following:



Study the section "Management of the purchasing function" in your prescribed textbook.

6.4.1 Planning in the purchasing function

Purchasing is a service function which should support the overall planning of the enterprise. This can be done by setting purchasing objectives in order to help realise the business objectives of the enterprise. Purchasing planning should be conducted together with the other departments in the enterprise.

6.4.2 Organising the purchasing function

Organising involves allocating responsibility and structuring activities. Organising the purchasing activities can be done in the following ways:

	Advantages	Disadvantages
Centralisation One purchasing function for the whole enterprise	<ul style="list-style-type: none"> • Buy in bulk – quantity discounts • Good relations with suppliers 	<ul style="list-style-type: none"> • Extensive process – buy all the requirements for the different branches
Decentralisation Every branch has its own purchasing function	<ul style="list-style-type: none"> • When the required raw materials differ between branches it is easier for each branch to buy for its own needs 	<ul style="list-style-type: none"> • Every branch has its own policy and procedures

A combination of centralisation and decentralisation

- The centralised purchasing function formulates the policies and buys common requirements such as equipment that is needed by all the branches.
- The decentralised purchasing function buys the specialised needs and small purchases of the individual plant.



Read this article on the difference between centralisation and decentralisation:

<https://www.scribd.com/doc/119742219/centralised-versus-decentralised-purchasing>

6.4.3 Control of the purchasing function

- The performance of purchasing management should be measured against set standards.
- The standards could include past performance, or the performance of other business units, or other businesses.
- The process of comparison is called “benchmarking”.

(a) Questions that will be included in the evaluation of purchasing management

- Are the purchasing policies, procedures and practices in order?
- Does the purchasing manager have adequate knowledge and skills to lead the purchasing function?

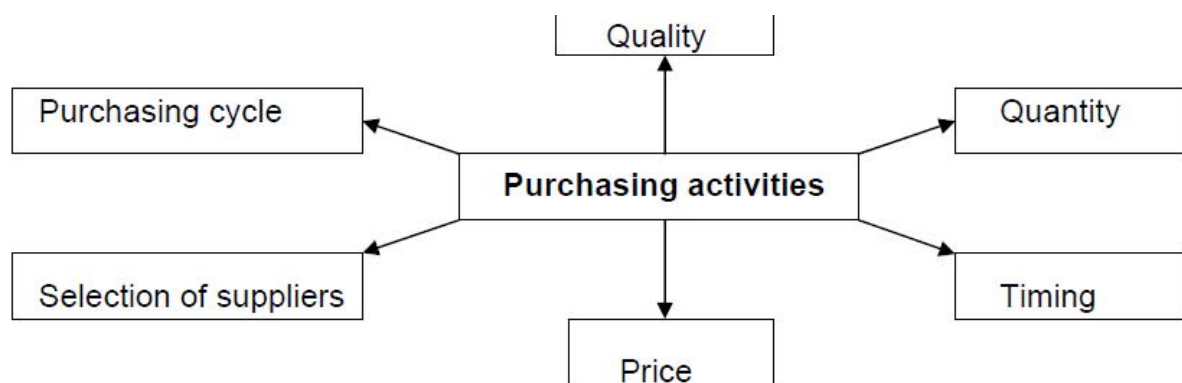
- Are training and development plans, procedures and programmes available?
- What are the relationships and cooperation between the purchasing function, the suppliers and the other functions of the enterprise like?
- How do suppliers feel about the purchasing function?

(b) Criteria for measuring performance

- Price
- Supplier performance
- Timeliness
- Cost savings
- Inventory holding
- Relationship with suppliers
- Relationship with other functions
- Workload

6.5 THE ACTIVITIES OF THE PURCHASING FUNCTION

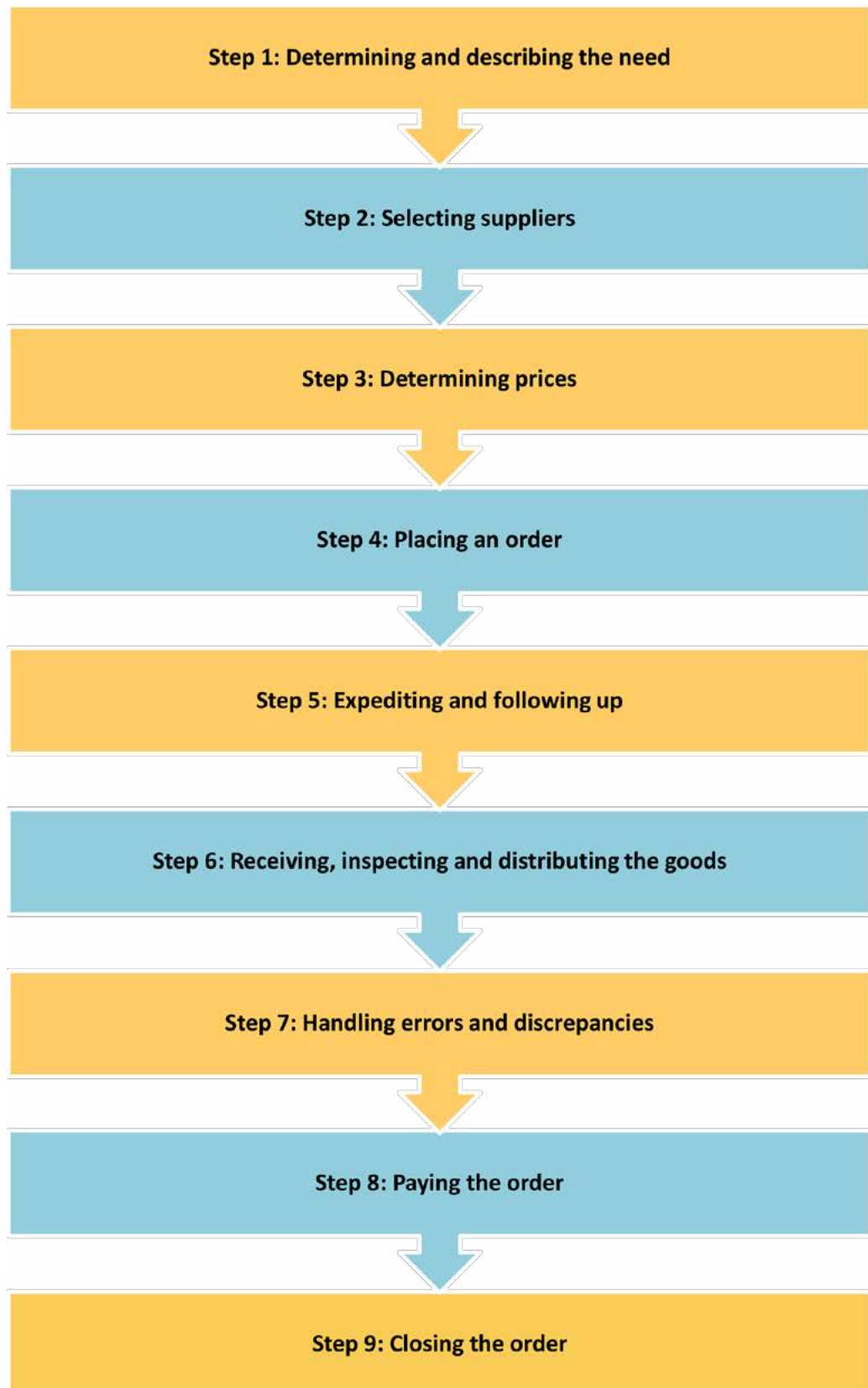
These activities form a logical cycle, and you will notice that your textbook refers to this cycle as the elements of the purchasing process, or the purchasing procedure. Some of these activities are mutually dependent and carried out at the same time.





Study the section "Purchasing activities" in your prescribed textbook.

The purchasing cycle



6.5.1 The quality of purchased goods

Quality represents the features and characteristics of a product that has the ability to satisfy stated or implied needs.

(a) *What is the right quality?*

- **Definition:** The right quality is the minimum acceptable quality with which production means must comply to ensure that the final product is acceptable to the consumers.
- **Meaning:** It is the best quality that can be supplied at the price the client is prepared to pay. The right quality is therefore not necessarily the best quality, but the quality that fulfils the specifications of the operations function.

(b) *The influence of quality*

- The quality of the purchased materials has a direct influence on the quality of the final products.
- The quality of the final products influences the consumers and the image of the enterprise.
- This will influence the sales and ultimately the profit of the enterprise.

(c) *Methods to describe quality*

- Specifications
- Standardisation
- Other descriptive methods such as market grades, brands, SABS marks, drawings and samples

6.5.2 Purchasing quantities and inventory

(a) *The importance of having stock available*

- Production cannot continue without stock.
- The needs of clients cannot be satisfied.
- It is costly to keep stock.

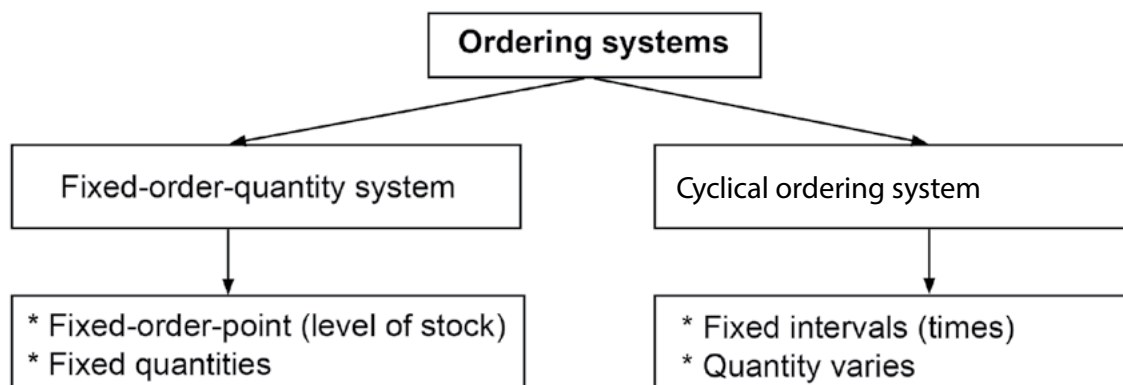
(b) Inventory costs

Inventory ordering cost	Includes the administrative costs incurred in ordering, receiving and inspecting stock.
Inventory carrying costs	<ul style="list-style-type: none"> • Storage costs include the costs of renting warehouses to keep the stock. • Electricity of warehouses. • Salaries of warehouse staff. • Insurance against fire and theft. • Opportunity costs refer to the fact that money could have been invested elsewhere to earn more income, or that storage space could have been utilised better, for example to expand the factory or shop. • The cost of obsolete stock refers to the ageing of stock which cannot be used anymore.
Cost of insufficient stock	<ul style="list-style-type: none"> • Production is lower or stops when the enterprise runs out of stock, leading to financial loss, and buying emergency stock at higher prices is also costly.

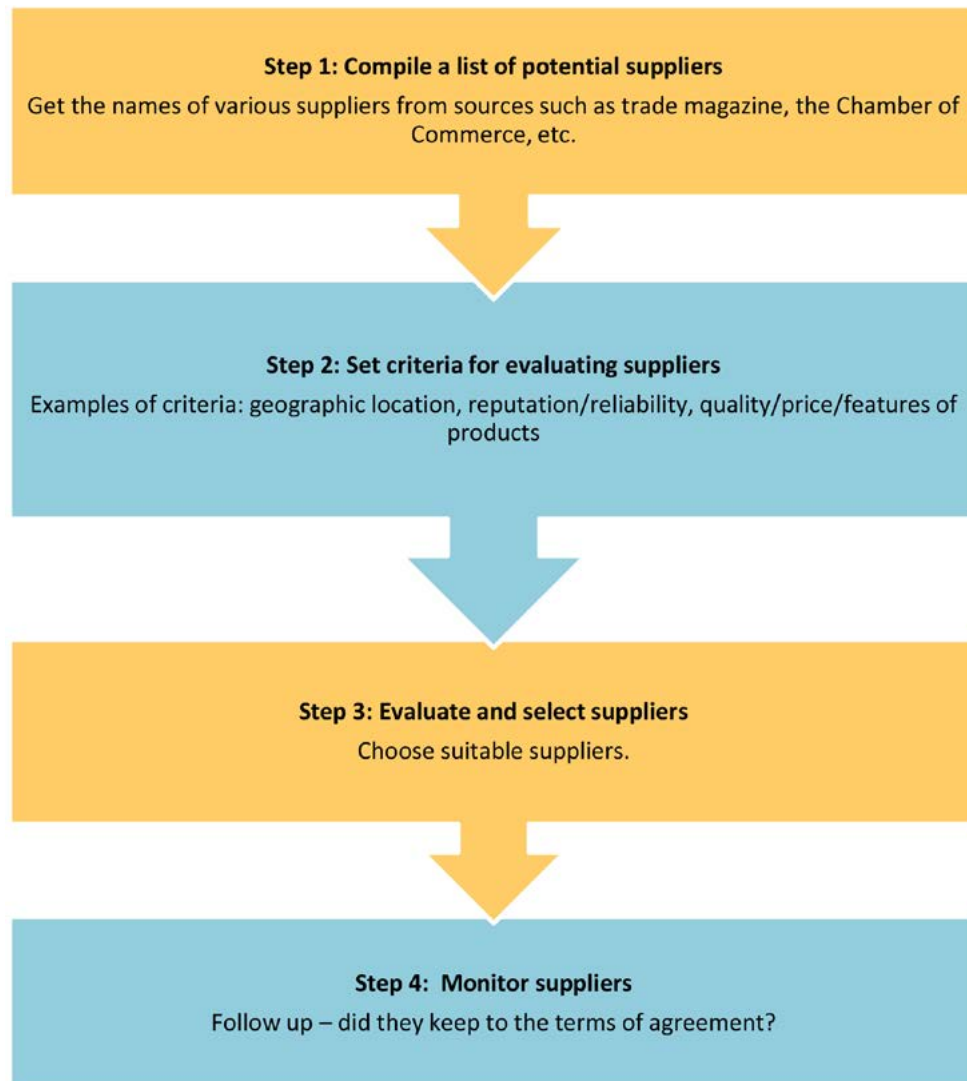
(c) Inventory control

Determine optimum stock levels:

- Weigh up the costs of keeping stock versus the costs of running out of stock (insufficient stock).
- Determine from this how much "safety stock" must be kept to provide for unforeseen circumstances.

(d) Ordering systems

6.5.3 The selection of suppliers



Here is an interesting article for the entrepreneur on the supplier selection process:
<http://www.infoentrepreneurs.org/en/guides/supplier-selection-process/>

6.5.4 Purchasing prices

- The cost of raw materials and stock has a direct influence on the cost of the final product, its selling price and ultimately on profit.
- Purchasing costs are the largest expense of a business.
- Commercial enterprises spend up to 90% of each rand on buying new stock to sell.
- Manufacturing enterprises spend about 60% of each rand on buying raw materials to manufacture more products.
- The purchasing prices of standard products of low value, such as stationery, can be determined through brochures, price lists and catalogues.
- For the purchasing prices of less standard products, such as custom-made furniture, and standard products of high value, such as office equipment, suppliers can be contacted for a quotation.

6.5.5 The timing of purchases

The timing of purchases influences the continuity of the operations and marketing functions.

(a) *Factors that influence the timing of purchases*

Internal factors

- the availability of funds
- marketing and operations plans and forecasts
- physical facilities – storage space
- internal policies

Internal policies include:

- scheduling purchases according to needs
- advanced purchasing
- minimum purchases

External factors

- market conditions
- government regulations
- seasons
- the reliability of suppliers

6.6 SUMMARY

The concept of business functions refers to a group of similar and related activities which are grouped together for practical and analytical reasons. Accordingly, all those activities related to purchasing should be included in the description of the purchasing function. In other words, the purchasing function includes the performance of all those activities which provide what a business requires.

It should be clear from chapter 6 in both your textbook and your study guide that the purchasing function is vitally important for the successful operation of the business and is therefore as important as all the other functions of the business.

If the purchasing function does not fulfil its responsibilities, the other functions of the enterprise cannot function at optimum levels. It is the responsibility of the purchasing function to ensure that goods and services of the right quality are supplied to the business at the right place, in the right quantities, at the right time and at the right price. If this does not happen, the activities of the other functions of the business are negatively affected. The operations function cannot produce the right quality products in time and therefore the marketing function cannot deliver the right quality products in time.

This leads to dissatisfied consumers, less profit, and a negative influence on the image of the enterprise, which ultimately influences the survival and existence of the enterprise in the long term. Without the purchasing function it would not be possible for the business to achieve its main objective, namely to maximise its profit (maximisation of wealth).

The enterprise also needs human resources to manufacture the products/create the services and to sell the products/services to consumers. A competent and motivated labour force is a prerequisite for any successful enterprise, regardless of the size of the enterprise. In chapter 7 we will discuss the recruitment, selection, employment, orientation, training and remuneration of an efficient labour force.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 6, you can proceed with chapter 7.

LEARNING UNIT 7

THE HUMAN RESOURCES FUNCTION

OVERVIEW

The human resource function exists in all businesses, irrespective of their size. The human resource function is the function which is primarily responsible for the well-being of the business's employees. The entrepreneur plays a very important role in all the activities that make up this function. This learning unit will focus on all the important components of the human resources function within an enterprise.

STUDY CHAPTER 7 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *draw up a job description for a post*
- *describe the process for employing staff*
- *compile an orientation programme for newcomers*
- *draw up a framework for a training programme*
- *explain the concept of human resource maintenance*



Key concepts

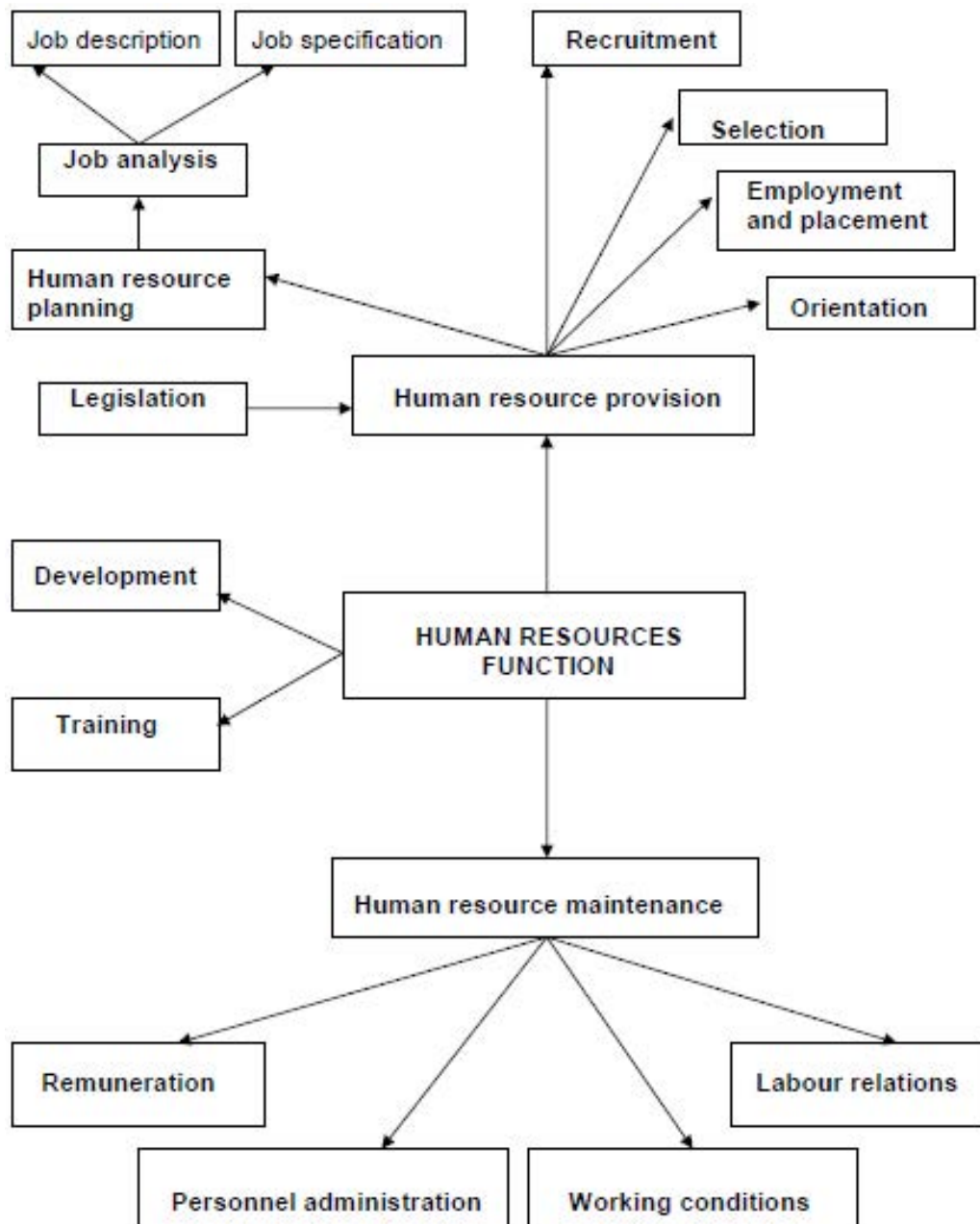
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- the human resource function
- job analysis
- job description
- job specification
- selection process
- employment
- placement
- orientation
- human resource provision
- training
- development
- training programme
- human resource maintenance
- direct remuneration
- indirect remuneration
- salaries

- employees
- payslip
- contractors
- labour relations
- personnel administration
- policy document
- working conditions
- unsafe conditions
- unsafe practices



Mind map for learning unit 7



7.1 INTRODUCTION

The human resource function can be described as all those activities in the business that relate to the provision, development and maintenance of a competent and motivated workforce.

If you analyse the description of the human resource function, you will see that it consists of three primary tasks:

- The provision of personnel (human resource provision)
- The training and development of personnel (human resource development)
- The maintenance of personnel (human resource maintenance)

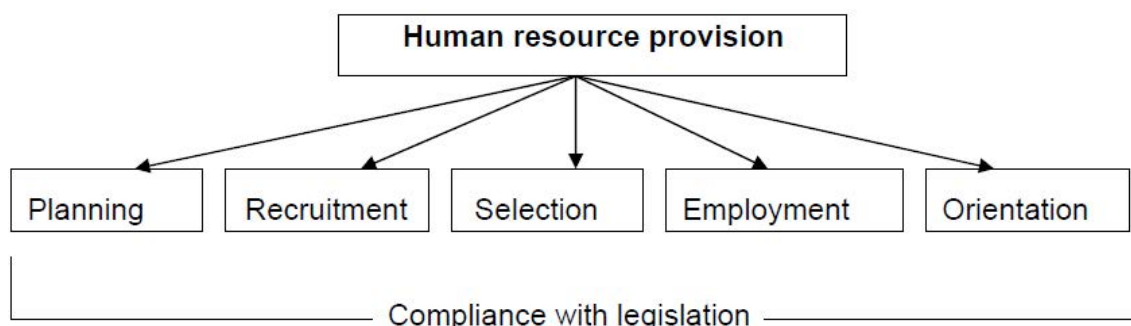
7.2 THE HUMAN RESOURCES FUNCTION

- *Definition:* Human resources are responsible for the procurement, development, compensation, integration, maintenance and effective use of a competent, motivated labour force.
- *Meaning:* This function must ensure that the enterprise employs the right number and type of employees on a continuous basis, by performing activities such as planning the need for personnel, as well as the recruitment, selection, employment, orientation and maintenance of an efficient labour force.

7.3 THE PROVISION OF HUMAN RESOURCES

The provision of human resources involves providing the right people for the positions that need to be filled in order to accomplish the main objective of the business.

The various aspects of the human resource function are human resource planning, recruitment, selection, employment and placing, and orientation, all of which fall under human resource provision and are governed by the law.



Activity 7.1

To be able to plan an effective human resource function, what information does the entrepreneur need and why? Substantiate your answer in no longer than one paragraph.

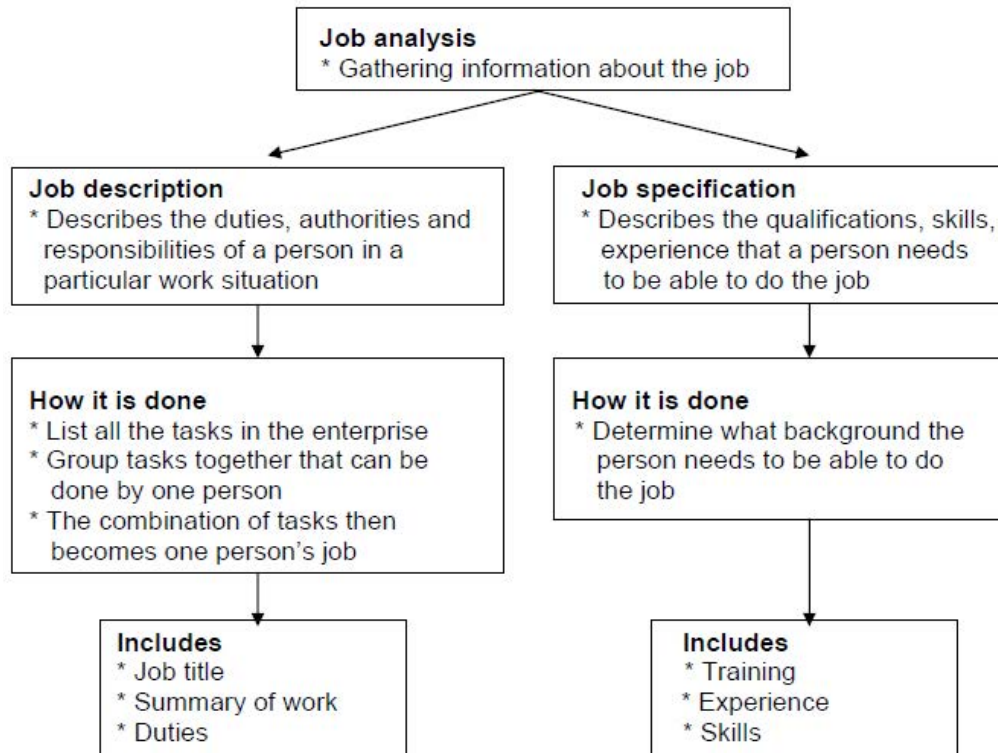
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Study the section "Provision of human resources" in your prescribed textbook.

7.3.1 Human resource planning

(a) How do we decide on the right number and type of employees?



Activity 7.2

Do you know the difference between a job description and a job specification? Summarise the main differences.

.....



Watch the following video, which gives a clear description and explanation of human resource planning:

https://www.youtube.com/watch?v=L_aigSRL-j8

7.3.2 Recruitment

- **Definition:** Recruitment entails the activities carried out in searching for and inviting potential employees and suitable people to apply for the posts available in an enterprise.

The type of recruitment that will be used will be determined by the current labour force and the type of position:

Recruitment type	Description
Internal recruitment	<ul style="list-style-type: none"> • This can only be used if employees with suitable potential are available in the enterprise. • The job is advertised internally among the current personnel. • Proficiency surveys can be done – the training, experience and qualifications of the employees are recorded and updated on file and when a post becomes available, the job specification is compared with the surveys to identify a suitable candidate.
External recruitment	<ul style="list-style-type: none"> • The job description (type of post/work) will determine the job specification of the particular post. • This will determine the source of external recruitment – whether you, for example, will advertise the post in the local newspapers or recruit from training institutions.



Here is a short video that explains the recruitment and selection process:

<https://www.youtube.com/watch?v=r-VcHu-wZxE>



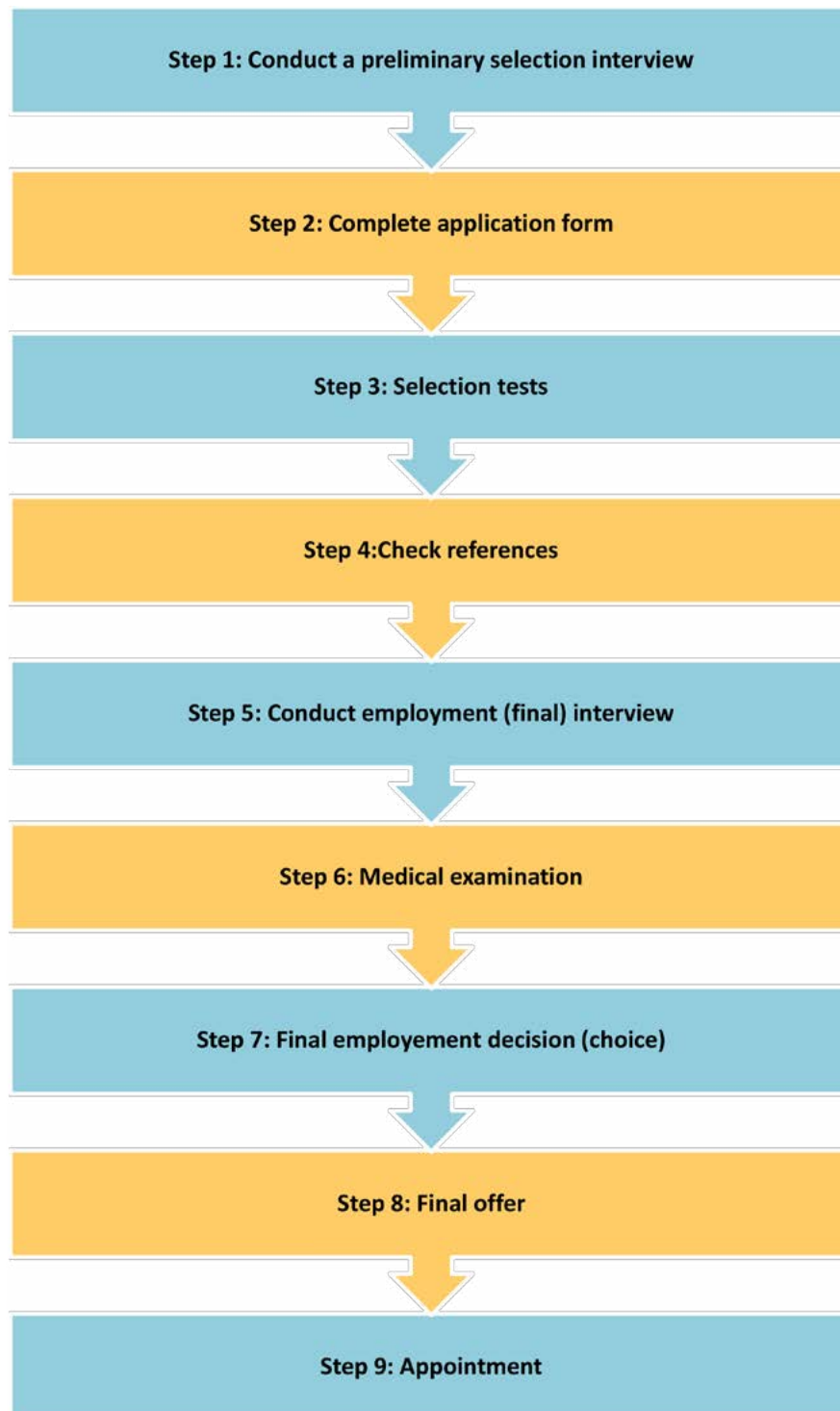
Read this interesting piece on effective recruitment and selection:

<http://www.oercommons.org/courses/human-resources-recruitment-and-selection/view>

7.3.3 Selection

- **Definition:** Selection is the process in which the most suitable person for a vacant post is chosen from the applicants for the post.

Steps in the selection process



7.3.4 Employment and placement

(a) Employment

This involves finalising the administrative matters – completing the forms for unemployment insurance, tax and medical aid and obtaining any outstanding information from the employee.

(b) Placement

- The employee is placed in the post he/she applied for.
- This also happens when an employee is promoted, transferred or demoted.

7.3.5 Orientation

- *Definition:* Orientation is the process in which employees are introduced to the enterprise, its procedures and the environment, to the work situation, and to their co-workers, subordinates and superiors.

Stages of orientation

Before new employees arrive	<ul style="list-style-type: none"> • Send general information regarding working hours and dress code. • Get their office or workspace in order. • Inform other employees about the newcomers.
On the first day	<ul style="list-style-type: none"> • Introduce them to co-workers. • Show them their offices and the environment of the enterprise.
During the first two weeks	<p>Introduce the employee to</p> <ul style="list-style-type: none"> • the activities of the department and how it supports the business as a whole. • his/her duties and responsibilities. • how, where and when employees are paid. • working hours, tea-times. • the leave procedures, dress code, recreation facilities.
During the first six months	<ul style="list-style-type: none"> • Monitor the new employees. • Identify training needs.

Please note:

Orientation is not the same as training:

- Orientation teaches the employee what to do.
- Training teaches the employee how to do it.

7.3.6 Compliance with legislation

The employees in the human resources function should be aware of the contents of:

- the Labour Relations Act
- the Basic Conditions of Employment Act
- the Employment Equity Act

Policies and procedures should be adjusted and applied fairly and consistently to all employees.



Here is an overview of the acts that must be displayed in the workplace:

<https://www.youtube.com/watch?v=l14LncPJOTc>



Activity 7.3

Visit the website of the Department of Labour at <http://www.labour.gov.za> to get the latest information on legislation.

Do you notice any changes that have taken effect this year? Discuss what you have seen with your fellow students and e-tutors in the discussion forums.

.....

7.4 HUMAN RESOURCE TRAINING AND DEVELOPMENT

7.4.1 Training

- *Definition:* Training is the method whereby employees' working habits and levels of job performance are changed to make them more effective in their current posts.

Training focuses on the technical skills that an employee needs to be able to perform a task. The aim of training is therefore to empower a person to perform as effectively and as productively as possible.

The aim (purpose) of training

- to orientate new employees with regard to new tasks
- to maintain a satisfactory performance level in spite of changes in the work or technology
- to improve performance and increase productivity

7.4.2 Development

- *Definition:* Development is the preparation of employees with potential for certain management posts.

Development focuses on the experience and skills that entrepreneurs and their managers need to perform their tasks. During the development process, managers or potential managers are therefore groomed to carry out the management task effectively.

The aim of development

- to equip employees with managerial skills so that they can function successfully as managers
- to prepare employees for further career development
- to prepare employees for promotion



Study the section "Human resource training and development" in your prescribed textbook.



Activity 7.4

Write down why training and development is not the same thing and should not be confused.

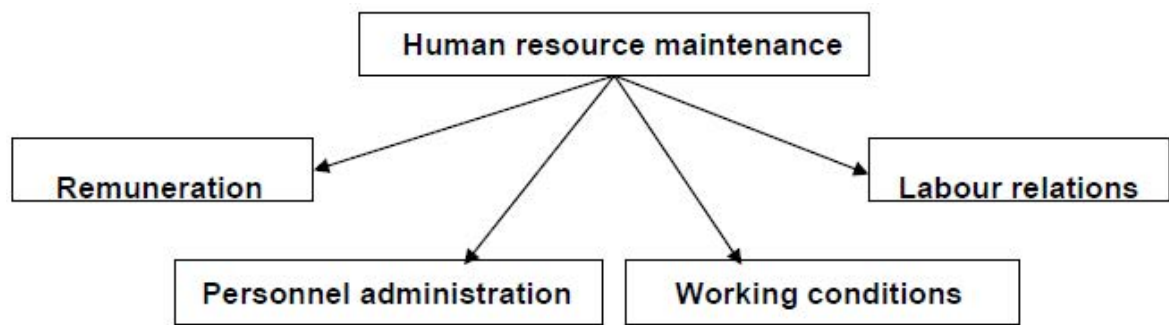
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7.4.3 How to draw up a training programme

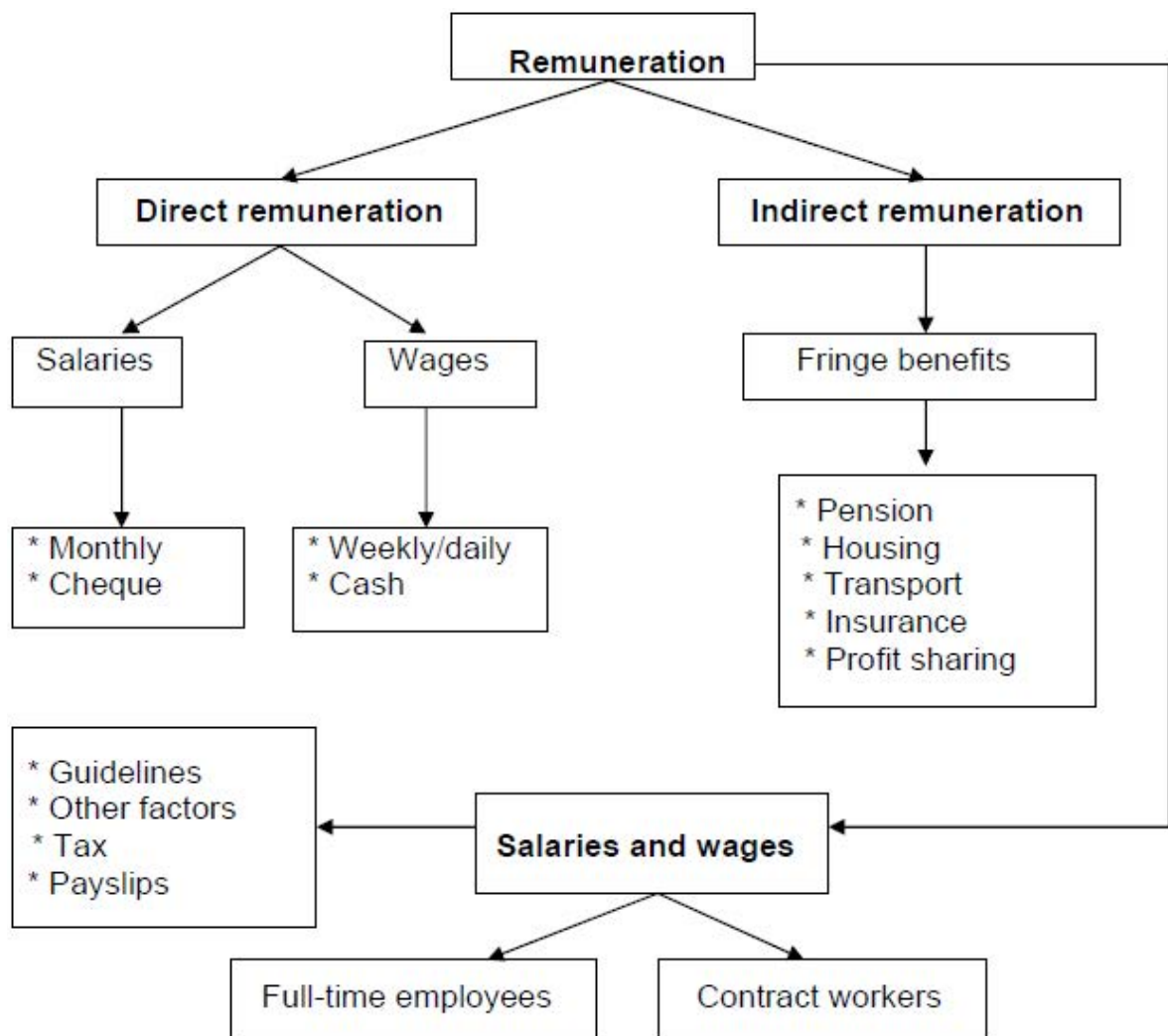


7.5 HUMAN RESOURCE MAINTENANCE

The concept of human resource maintenance can be described as all those activities of the business which contribute to making the work situation so beneficial to the employees that they will not resign. These activities include remuneration, and good labour relations, personnel administration and working conditions.



7.5.1 Remuneration



(a) How to decide on a salaryGuidelines

- Look at the salaries of similar posts in other enterprises.
- Do a job appraisal – compare the value of posts in other enterprises with the value of posts in your enterprise.
- Arrange posts in sequence from the lowest to the highest level (top level).
- Draw up a remuneration policy and attach a salary scale to every level.

Other factors to consider

- the supply and demand of labour
- the ability of the enterprise to pay
- the prevailing minimum wages



Here are some tips on how to determine a fair salary for your employees:

<https://www.youtube.com/watch?v=OFYPLrQe-sQ>

(b) Aspects to consider

Tax	Payslips
<ul style="list-style-type: none"> • Employees should be registered with the Receiver of Revenue. • Each employee should have a tax number. • The employer must deduct tax from salaries and pay this to the Receiver monthly. • The amounts deducted should be according to the tables received from the Receiver. • At the end of the financial year (28 February) each employee should receive an IRP5 form. • An IRP5 form serves as a summary of the employee's income and deductions over the past year. 	<ul style="list-style-type: none"> • A payslip must contain the following information: <ul style="list-style-type: none"> o the employer's name and address o the employee's name and occupation o the period for which payment is made o the total salary or wage o the actual amount paid o overtime, if applicable

(c) Contract workersCharacteristics

- These workers do not work for a salary; they are contracted to do a certain job.
- They get paid for what they have done – similar to a piece-wage system.
- Remuneration is directly related to the amount of work done.

The contract should include:

- details of service (description of job) or product to be provided

- who will provide the resources – machines, materials, stock and maintenance
- fee structure – how the payment is determined
- commencement and completion dates
- breakdowns and other hold-ups
- indemnity, guarantees, liability and insurance

Disadvantages

- These workers do not have the same rights and advantages as employees.
- They do not have paid leave, medical aid, pension and insurance.

7.5.2 Labour relations

- Labour relations have to do with regulating and maintaining the relationship between the employee, the employer and the state. It is important that the necessary rules, systems and procedures should be in place to control this multifaceted relationship.
- Labour relations are concerned with the drawing up, maintenance, change and administration of rules, control processes, ideologies, interactions and relations in the workplace.
- It involves a three-fold relationship between the government, the management of the enterprise and labour.

7.5.3 Personnel administration

Personnel administration involves keeping records of the personal information and service record of every employee.

- The quality of decisions taken by management with regard to employees depends on the availability and accuracy of information.
- Human resources is responsible for keeping records of human resource data and for keeping the service records of employees.
- Employees should be familiar with the policy of the business. The policy document includes:
 - the conditions of service
 - leave codes
 - rights and privileges
 - the grievance procedure
 - the disciplinary procedure

7.5.4 Working conditions

The working conditions of employees have a substantial impact on their motivation, morale, attitude and productivity.

(a) The importance of good working conditions

- Pleasant and safe working conditions increase motivation and productivity.
- Unsafe, unhygienic and unpleasant conditions can cause accidents and diseases.
- Bad working conditions can cause an increase in absenteeism, a decrease in productivity and lower profits.



Here are some benefits of a good working environment and office space:

http://www.justlux.com/community/the-benefits-of-a-good-working-environment-office-space_a_1827720.php

(b) Unsafe conditions and unsafe practices

	Examples
<p>Unsafe conditions This refers to accidents caused by technical failures</p>	<ul style="list-style-type: none"> • unsafe constructions • sharp or slippery surfaces • too many people in work areas • lack of protective clothing • inadequate ventilation, poor lighting and too much noise
<p>Unsafe practices This refers to accidents caused by human error</p>	<ul style="list-style-type: none"> • working too fast • working without authorisation • working on moving equipment • moving in unsafe places • refusal to wear protective clothing

(c) The causes of accidents

Personal factors	Work factors
<ul style="list-style-type: none"> • Lack of knowledge or skills • Physical or psychological distractions • Incorrect attitude or motivation 	<ul style="list-style-type: none"> • Unsafe conditions • Inadequate working standards

(d) Legislation

General issues

The human resources function is governed by the following legislation:

- Basic Conditions of Employment
- Compensation for Occupational Injuries and Diseases
- Employment Equity
- Labour Market Research and Statistics
- Labour Relations
- Occupational Health and Safety
- Skills Development
- Unemployment Insurance

Subjects covered by legislation

Human resources should be well informed about the following subjects:

- maternity benefits
- annual leave

- registration
- payslips
- accidents



Study the section "Human resource maintenance" in your prescribed textbook.



Activity 7.5

Which act aims to promote and achieve equality in the workplace by encouraging equal opportunities for all workers?

.....

7.6 SUMMARY

The growth and development of an enterprise depends not only on the owner of the enterprise, but also on the employees. The employees must enjoy their work and be loyal to the enterprise. The enterprise must appoint the right people and manage them in such a way that they will be productive and eager to perform their duties. The aim of the human resource function in a business is not only to recruit, select and employ suitable employees, but also to develop, train and educate existing employees. This is essential to make sure that employees fulfil their potential.

An enterprise needs information in order to make informed decisions. The information function provides information to all the other functions of the enterprise, to enable them to make the right decisions and to ensure that the enterprise functions as a system. In chapter 8 we will discuss the importance of information, as well as the duties of the information function.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 7, you can proceed with chapter 8.

LEARNING UNIT 8

INFORMATION MANAGEMENT

OVERVIEW

Previously the information management function was usually known as the administrative function and the secretarial function. In those days the duties of a secretary consisted of general office duties such as filing or dealing with mail. However, the business world of the entrepreneur has changed completely from the business world of a few years ago. Today's entrepreneurs manage in an economy of ideas, the new economy. For this reason the information management function has also changed. This learning unit will focus on all the important components of information management within an enterprise.

STUDY CHAPTER 8 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

- *define the information management function*
- *explain the nature of information*
- *explain the difference between data and information*
- *identify and describe the stages of processing differentiate between the different information needs of top-, middle- and lower-level management*
- *explain the different types of internal and external information needed by functional managers*
- *explain the six basic components of an information system*
- *identify and explain the various types of information systems in a business*
- *explain the concept of knowledge management*
- *indicate why knowledge management is beneficial for a business*



Key concepts

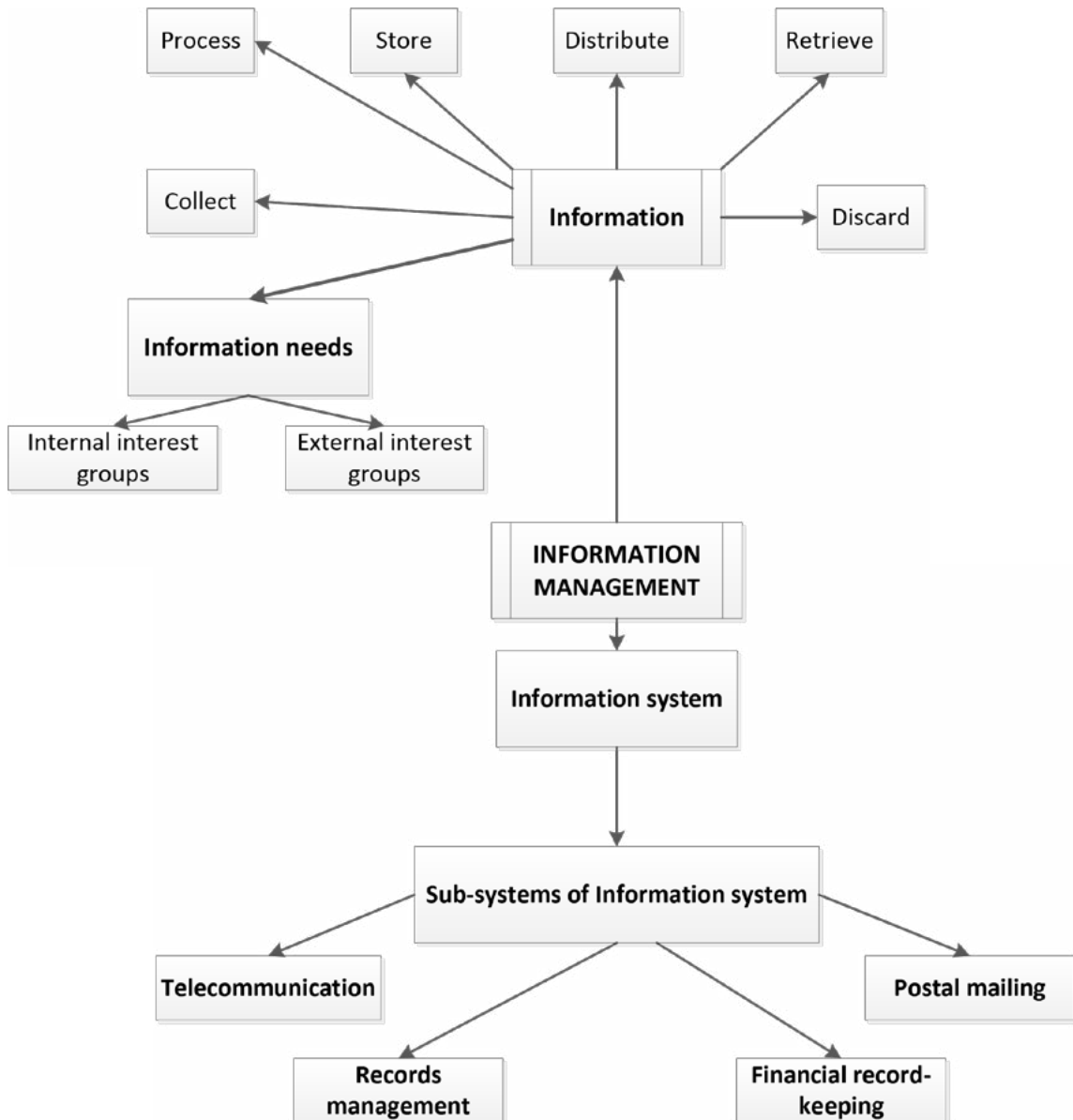
You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- the human resource function
- information management
- information
- data
- the information processing system
- filing
- mechanical filing
- financial record-keeping

- financial registers
- incoming mail
- outgoing mail
- telecommunication
- electronic modes of communication
- e-mail
- computers



Mind map for learning unit 8



8.1 INTRODUCTION

The information management function deals with the establishment of systems, procedures and techniques to collect, classify and process information, and to make it available in a usable form, such as in a report to people who require information for decision-making and planning.

- The information management function is mainly concerned with the provision of usable information to all the users of information (decision makers).
- This function provides a service to all the other functions of the enterprise by supplying information with which informed decisions can be made.
- It also entails ordinary administrative tasks such as the handling of mail, filing, telecommunication services, printing and copying, certain aspects of bookkeeping, costing, managing budget systems and keeping business statistics.
- The size and type of business will determine the extent of the administrative tasks.

8.2 THE INFORMATION MANAGEMENT FUNCTION

- *Definition:* The information management function is responsible for the collection, processing, analysing, storage and distribution of information.
- *Meaning:* This function is responsible for providing information to all the internal and external decision makers to enable them to make informed decisions.



Activity 8.1

Write down five points explaining why information is very important for any business. Discuss these points with your fellow students and e-tutor.

.....



Watch this video on the definition of information management:

<https://www.youtube.com/watch?v=E97Tm15CY4o>

8.3 INFORMATION SYSTEMS

8.3.1 The importance of information

- Incomplete or insufficient information leads to wrong decisions, loss of money, time and labour, and even the failure of your enterprise.
- The provision of the right information at the right time and in the right form is essential for the survival and success of your enterprise.

8.3.2 The difference between data and information

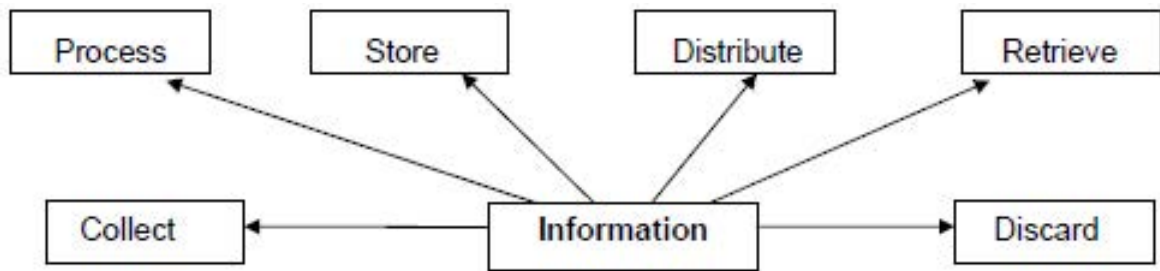
(a) **Data**

- **Definition:** Facts in an unprocessed form, which cannot be used in decision-making.

(b) **Information**

- **Definition:** Data that have been processed, so that it can be used in a specific situation (in decision-making).

8.4 THE STAGES OF PROCESSING INFORMATION



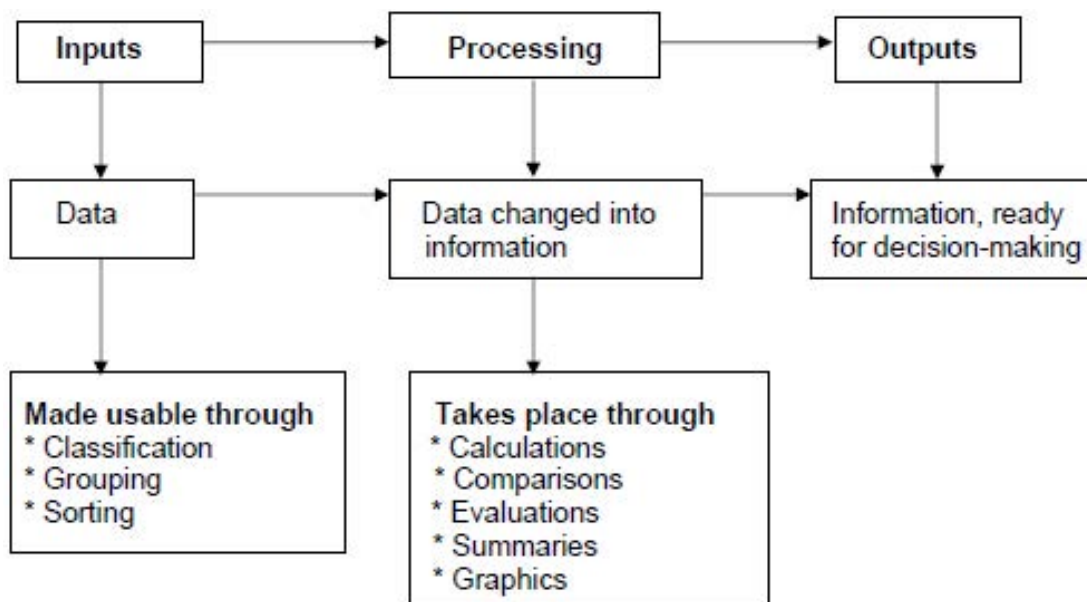
8.4.1 The collection of data

Three aspects to consider:

- the activities on which the data must be collected
- the format in which to collect the data
- the methods by which to collect data

8.4.2 Processing

The information processing system:



- Data can be processed mechanically or by hand.
- The steps that are followed for mechanical processing and manual processing are the same: inputs, processing, outputs.



Study the "Stages of processing information" in your prescribed textbook.



Activity 8.2

What is the biggest difference between data and information? Provide an example of data and an example of information.

.....

(a) *Inputs*

Before processing can take place:

- all the relevant data must be collected
- it must first be made usable through classification, grouping and sorting

Example

Before the year mark of a student can be calculated, the marks for all three assignments should be collected, as well as the criteria according to which the year marks are calculated.

(b) *Processing*

- Processing can take place through making calculations, drawing comparisons, doing evaluations, making summaries and creating graphics.

Example

Processing is the actual calculation of the year mark.

(c) *Outputs*

- Outputs are the results of processing.
- Outputs are the processed data (information) that can be used in decision-making.
- This data can be in the form of reports, summaries or statements.

Example

The final year mark that can be sent to the student

8.4.3 Storage of information

- Manually – by using cabinets, shelves or files
- Electronically – by using a computer

8.4.4 Distribution of information

Information must be made available to the users – the people who requested the information. This can be done by means of conversation, letters, telephone calls, faxes, or emails.

8.4.5 Retrieval of information

This refers to locating the stored information when it is needed.

8.4.6 Discarding information

This involves throwing away (the physical destruction of) files that no longer have any value to the users.



Study “Types of information systems” in your prescribed textbook.

8.5 THE INFORMATION NEEDS OF THE ENTERPRISE

The information manager/administrative manager plays a very important role in coordinating all the different functions in the business. It is the responsibility of the administrative manager to ensure that the information required by the various functions in the business reaches them at the right time. To ensure this, it is essential that the various functions send their data to the administration section in good time to allow sufficient time to process the data into information so that the right information reaches the other functions at the right time.

(a) The other functions of the enterprise

Function	Information needed
Owner/general management	<ul style="list-style-type: none">• the general financial position of the enterprise• profitability• liquidity and solvency• the performance of the other functions
Marketing	<ul style="list-style-type: none">• information on consumers – their needs and preferences• information about products, prices, quality• information about competitors• target market and market share

Function	Information needed
Purchasing	<ul style="list-style-type: none"> • information about suppliers – their prices, quality, quantity • stock needed • stock levels • delivery dates
Operations	<ul style="list-style-type: none"> • production volumes • delivery dates • cost of raw materials • quality of products needed
Human resources	<ul style="list-style-type: none"> • human resources needs • salaries • labour unions • training needs
Financial	<ul style="list-style-type: none"> • profitability, liquidity and solvency • capital needs and budgets • capital sources • interest rates
Public relations	<ul style="list-style-type: none"> • image of the enterprise, public opinion and interest groups • important events • opportunities for sponsorships and donations • publicity



Activity 8.3

Why would an external interest group, such as a supplier, require specific information about your business? Discuss your reasoning with your fellow students and e-tutors in the discussion forums.

.....

8.6 TYPES OF INFORMATION SYSTEMS

8.6.1 Main systems

- transaction processing systems
- decision support system
- management information system
- executive support system

8.6.2 Additional systems

- systems for each function
- supply chain management
- customer relationship management



Activity 8.4

What is a SCM system? What is the purpose of a SCM system?

8.7 THE COMPONENTS OF INFORMATION SYSTEMS

An information system consists of six basic components that work together to collect, manipulate, store and process data into information. The six basic components are:

Resources	Products
Data resources	Product descriptions, customer records, employee files, inventory databases.
Hardware resources	Machine – computers, video monitors, magnetic disk drivers, printers, optical scanners. Hardware devices associated with computers – sound recordings, CPUs, storage devices, input devices, output devices, communication devices.
Software resources	Programs – operating systems, spreadsheet programs, word processing programs, payroll programs. Procedures – data entry procedures, error correction procedures, payslip distribution procedures.
People resources	Specialists – systems analysts, software developers, system operators. End-users – anyone else who uses information systems.
Network resources	Communications media, communications procedures, network access and control software.
Information products	Management reports and business documents using text/graphic displays, audio responses and paper forms.



Study the "Components of information systems and types of information systems" in your prescribed textbook.

8.8 KNOWLEDGE MANAGEMENT

- **Definition:** Knowledge management is the process of identifying, collecting, storing and transforming data and information into an intellectual asset.
- **Meaning:** The attempt of the enterprise to put procedures and technologies in place to transfer individual knowledge into databases.

8.8.1 Type of knowledge within an enterprise

Explicit knowledge	<ul style="list-style-type: none"> • These are processes and procedures. • They are readily detailed in manuals and databases.
Tacit knowledge	<ul style="list-style-type: none"> • This includes experience on how to react to a situation where many different variables are involved. • Techniques for sharing knowledge are learning stories and histories.

8.8.2 Important dimensions of knowledge

- Knowledge is an organisational asset.
- Knowledge has different forms.
- Knowledge has a location.
- Knowledge is situational.

8.8.3 Advantages of knowledge management

- It fosters innovation by encouraging the free flow of ideas.
- It improves customer service by streamlining the response time.
- It boosts revenues by getting products and services to the market faster.
- It enhances employee retention rates by recognising the value of employees' knowledge and rewarding them for it.
- It streamlines operations and reduces costs by eliminating redundant or unnecessary processes.
- It preserves organisational memory by capturing and storing the lessons learnt, and taking note of the best practices of key employees.



Here is a video that explains the difference between explicit and tacit knowledge:

<https://www.youtube.com/watch?v=O1PSSxB4Lxs>

8.9 SUMMARY

Information is essential for decision-making. Incomplete or insufficient information can cause wrong decisions that can lead to loss of money, time and labour, and even the failure of an enterprise. The information management function is responsible for the provision of the right information at the right time to ensure the survival and success of the enterprise.

The information management function is aimed at service and does not directly generate profit. The information management function can be summarised as those activities concerned with the services of obtaining, recording and analysing information and communicating the results to management, who can then safeguard the assets and promote the affairs of the enterprise and achieve its objectives.

Therefore the administrative manager must ensure that the tasks of the administration section are really significant and necessary, and performed effectively and efficiently. The manager must ensure that the correct information and the right quantity of information are available in time for whoever may need it. The entrepreneur must also determine which reports and surveys are needed, and when. Information that is made available but not used represents a waste of labour, time, paper and everything associated with it.

An enterprise is dependent on the goodwill of the public for its success and survival. If the enterprise does not treat its interest groups well or if the people in the area are opposed to the establishment of the enterprise, the business will not be supported and is doomed to failure. The public relations function is responsible for promoting and maintaining the image of the enterprise. In chapter 9 we will discuss the importance of the image of the enterprise, the factors that determine the feelings and opinions of the public, the interest groups with which the business has to maintain good relations, as well as the social responsibility of the enterprise.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

If you are satisfied with your results and are sure that you have a thorough knowledge of chapter 8, you can proceed with chapter 9.

LEARNING UNIT 9

THE PUBLIC RELATIONS FUNCTION

OVERVIEW

This chapter in the prescribed textbook explains the broad field of the public relations function. Public relations is one of the business functions and, as seen in previous chapters, all these functions must be coordinated to enable the business to function effectively.

STUDY CHAPTER 9 IN THE PRESCRIBED BOOK



Learning objectives

On completion of this learning unit, you should be able to:

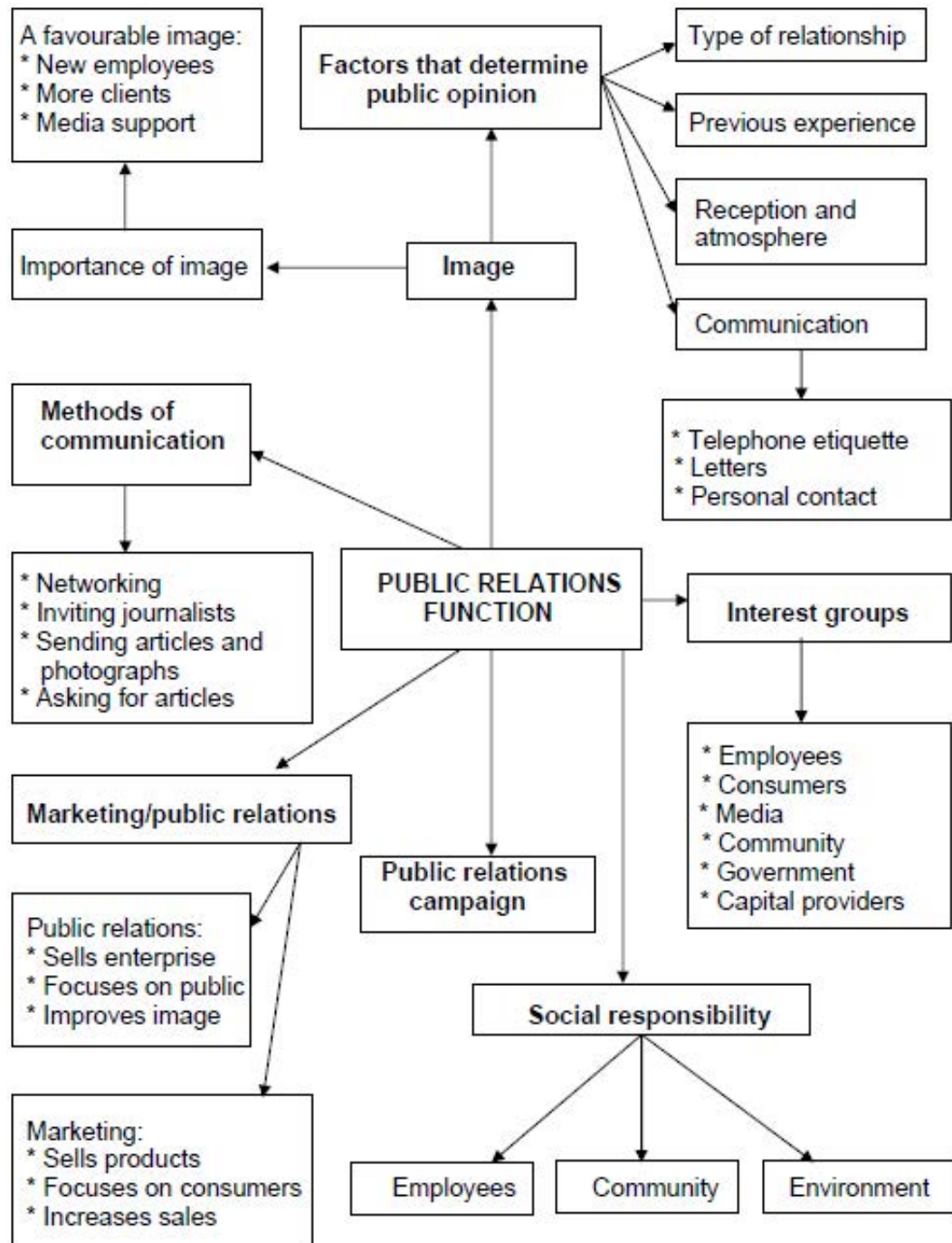
- *understand what is meant by public relations and be able to define public relations*
- *identify the objectives of public relations in the business world*
- *identify the various interest groups (or "publics") and prospective businesses with which your business interacts*
- *evaluate the importance of public opinion*
- *explain how important public opinion is to a business*
- *distinguish between the various methods of communication*
- *describe what "social responsibility" involves*



Key concepts

You will need to master the following key concepts in order to achieve the learning objectives for this chapter:

- interest groups
 - internal publics
 - external publics
 - public opinion
 - methods of communication
 - social responsibility
-



9.1 INTRODUCTION

The textbook discusses the guidelines and the framework within which entrepreneurs apply the public relations principles to manage a business effectively. Managing public relations is no different from managing any other business function, except that it is exclusively concerned with the management of relationships.

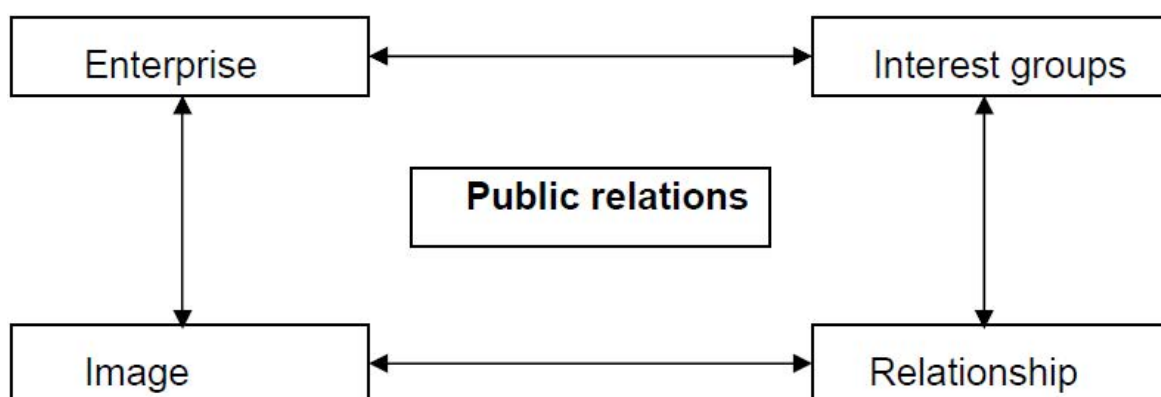
Today the interaction between the business and the environment plays a significant role in the success of a business. It is therefore very important that the image conveyed by the business should be positive and favourable.

- The support of the public cannot be bought – it must be earned and maintained.
- The success and survival of the enterprise depend on the goodwill of the public.
- All enterprises, regardless their size, have a public relations function.

9.2 DEFINING PUBLIC RELATIONS

In our modern society, competition has become so fierce that it no longer suffices to just market the products and services of the enterprise. Nowadays, it is important that businesses market themselves in the environment. This means that the business must build an image and reputation for itself that will be acceptable to society, so that consumer and other interest groups will be eager to support it.

- *Definition:* The public relations function aims at creating a good image of the enterprise among all the interest groups.
- *Meaning:* This function establishes and maintains a good relationship with all the people and businesses that have an interest in the enterprise.



Activity 9.1

Write down examples of the following interest groups and discuss them with your fellow students and e-tutor:

consumers, the community, employees, the media, the suppliers

.....



Here are some useful public relations tips for the African start-up entrepreneur:

<https://www.youtube.com/watch?v=w5E2gS4lrN8>

9.3 THE OBJECTIVES OF PUBLIC RELATIONS

In view of what has been said above, the primary objective of external relations is to develop the image of the business in such a way that there will be a healthy relationship between the business and all its interest groups, so that these interest groups will consider the business policy, products and/or services of the business to be acceptable.

(a) Goal

To create and maintain mutual knowledge and understanding within the enterprise and between the enterprise and the public

(b) Primary objective

To promote and improve the image of the enterprise among the public in order to establish and maintain a healthy relationship between the enterprise and its interest groups

(c) Secondary objectives

To promote the prosperity of the business and to establish goodwill among the public



Study the “Objectives of public relations” section in your prescribed textbook.

9.4 THE INTEREST GROUPS (PUBLICS)

- Definition: The interest groups are the groups of people with which the business must communicate for it to be successful.
- Meaning: It means all the people (publics) that have a direct or indirect influence on the enterprise, such as the consumers, the community, the employees, the media and the suppliers.

9.4.1 The different publics

Internal publics	The word “public” normally refers to people outside the business. In the context of public relations, it also refers to the employees and employers of the business. They are known as the internal public. The internal public are people inside the business. It is important to notice that the business cannot function without the internal public, and in turn the internal public need a place to work and earn money. For this reason it is important for the internal public that the good name and image of the business are protected.
External publics	External publics are those groups who are not directly connected with the business, such as the press, government (the law), educators, customers, shareholders, the community, suppliers and controlling bodies.



Go back to your prescribed textbook and study these key components now.

9.4.2 The importance of interest groups

- The enterprise has a significant obligation towards the public. Today the public is well informed and will not tolerate poor treatment, incorrect information or misunderstandings.
- The enterprise has a duty to keep interest groups informed for them to understand the intentions of the enterprise.
- In exchange, the enterprise will win a loyal public that will support them and buy their products.



Activity 9.2

Why do you think interest groups are important for your business? Discuss your answer with your fellow students and e-tutors in the discussion forums.

.....

9.5 SHAPING PUBLIC OPINION

The public opinion is the view held by a large group of people on a certain issue affecting the community. This belief of the community reflects their opinion or attitude on a topic such as environmental awareness, pollution, unemployment or crime. Once a certain image of the business is formed, it is not easy to change it.

(a) *The type of relationship*

The type of relationship that interest groups have with the enterprise will determine whether the public opinion is favourable or not.

For example, if something goes wrong with the products, the enterprise can warn the consumers and withdraw the products and compensate consumers, thus minimising the damage to their image.

(b) *Previous experience*

- Consumers share their experiences with one another.
- Positive experiences will be good advertisements.
- Negative experiences will be bad publicity.
- Negative publicity lasts longer than positive publicity.

(c) *Reception and atmosphere*

- The reception areas (the areas in the business where customers are received) and the behaviour of employees can create a good or bad impression of the enterprise.
- Employees must be informed about the way in which they should receive and treat clients.
- A visitor to the business will form an immediate impression of the business just by looking at the reception. If the reception area is neat, clean and friendly, the visitor will have a positive view of the business and the opposite is also true.
- Receptionists should be friendly and helpful.

(d) Communication

Telephone calls, letters and personal contact reflect what the enterprise really thinks of its clients.

9.6 METHODS OF COMMUNICATION

The basis of external relations is good communication with all the publics that influence the enterprise's success. It is therefore important that you understand what is meant by communication and know which elements are involved in the method of communication used. A smaller enterprise will usually not be able to afford expensive advertising and must make use of other methods to make the enterprise known to the public.

Examples of communication

(a) Networking

- Networking occurs where friends and acquaintances tell one another about the enterprise.
- Networking can be done by joining organisations and associations such as the local chamber of commerce.

(b) Inviting journalists

The business can invite journalists from the local newspaper to the opening of the business.

(c) Sending articles and photographs

The business can send articles and photographs to the press if they cannot be present at an important occasion such as the launch of new products or the anniversary of the enterprise.

9.7 THE DIFFERENCE BETWEEN MARKETING AND PUBLIC RELATIONS

	Marketing	Public relations
Product sold	Sells the products of the enterprise	Sells the enterprise itself/ makes the enterprise known
Public reached	Consumers	Broad public/all interest groups
Objective	To increase sales/increase turnover	To improve the image of the enterprise

- Although the functions of marketing and public relations work closely together, they should never be regarded as the same.
- As the marketing function works with the largest interest group of the enterprise, namely the consumers, its actions influence the image of the enterprise directly.

- Marketing and public relations should work together to plan promotions and advertisements in such a way that they promote not only the products, but also the image of the enterprise.



The following video highlights the main differences between public relations, marketing and advertising:

<https://www.youtube.com/watch?v=7zMRt6qCBZg>



Activity 9.3

Write down the key words that distinguish between the following:

- marketing
 - public relations
-

9.8 THE PUBLIC RELATIONS CAMPAIGN

9.8.1 The six types of public relations campaigns

There are six main types of public relations campaigns. The type of campaign that will be chosen will depend on what situation the enterprise is in and what it aims to achieve by launching the campaign.

- the public awareness campaign – to make people aware of something
- the information awareness campaign
- the public education campaign – to educate the market about something
- campaigns aimed at reinforcing the attitudes and behaviour of the market
- campaigns aimed at modifying the behaviour of the publics
- campaigns aimed at changing the attitudes of the market or public

9.8.2 The five functional stages in the public relations campaign

Identification stage	The public identifies the business by its logo or corporate colours.
Legitimacy stage	The business proves that they are honest/legitimate, for example that they are actively involved in charity events.
Participation stage	The business tries to involve those who were previously not involved.
Penetration stage	The group at which the campaign is aimed becomes aware of the cause.
Distribution stage	During this stage the business shows the publics that action will occur and that it is living up to its promises.



Watch this video, which explains how you could develop a PR campaign for your enterprise:

<https://www.youtube.com/watch?v=5HtF8jThRsg>

9.8.3 The four steps in the public relations process



Activity 9.4

Apply the four-step public relations process to any business of your choice, and discuss your answer with your fellow students and e-tutors in the discussion forums.

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9.9 SOCIAL RESPONSIBILITY

The basic principle of social responsibility as part of external relations is that by helping others you are helping yourself. Social responsibility as part of external relations includes the environment in which the business operates and also the community, which includes all the employees of the business as well.

9.9.1 Employees

- A good labour force is necessary to keep the enterprise functioning.
- The enterprise must create a supportive climate to satisfy employees' needs and to ensure that employees perform at the optimum level.

Examples

- Provide financial study aids for employees or their children.
- Pay market-related salaries.
- Provide fringe benefits.
- Include employees in decision-making.
- Provide training and opportunities for promotion.
- Allow employees to acquire skills.
- Provide day care for their children.

9.9.2 The environment

- The enterprise also has a responsibility towards the environment in which it functions.
- It should contribute to the creation of a better social, ecological and aesthetic environment.

Examples

- The business should show consideration for nature.
- The business should take part in environmental conservation activities.
- The business should be part of anti-pollution campaigns.



Activity 9.5

Study the following aspects of social responsibility as part of external relations in your prescribed textbook:

- employees
 - the environment
-

9.10 WHAT DO PUBLIC RELATIONS INVOLVE?

The image of a business has a major effect on its success and survival. For this reason the business must ensure that there is always a good relationship between itself and the public that influences its success. In other words, the “image” of the business is actually more than just a good name.

Many people form an impression of a business before they even know it, merely on the basis of its reputation, or based on what they have heard about the business from other people, or have read about it.

The tasks of public relations

Promoting goodwill	The enterprise should promote goodwill by donating to charity organisations.
Releasing information to the public	Press releases should be issued about crises in the business.
Creating and reinforcing an image	The image of the enterprise must be promoted and improved.
Directly promoting a product/service	Articles about products can serve the same purpose as advertising.
Counteracting negative publicity	The business should exercise damage control, providing accurate information about the problem.
Handling internal communication	Internal communication includes newsletters to employees to keep them informed of what is happening in the enterprise. This leads to a higher morale.
Promoting and planning events	The business can promote events by means of press releases.

9.11 A PUBLIC RELATIONS CHECKLIST

The enterprise must determine what kind of public relations it needs. Certain questions can be asked to assist the entrepreneur in his/her decision.

Questions that can be asked:

- Do we need local, regional or national publicity?
- Is it important that we reach a certain group?
- How important is goodwill to us?
- What kind of information do we want to communicate?
- Are there specific programmes or services that we want to emphasise?
- To whom must our work ultimately appeal?
- Are we trying to offset a bad image?
- Is it more important for us to do a good job, or to prove that we are doing a good job?
- Do people confuse us with some other businesses?

9.12 SUMMARY

Customer support cannot be bought, but must first be earned and then maintained. If an enterprise has a good image, employees would want to work for the enterprise, the enterprise would have an established and growing clientele, and the media would give the enterprise the benefit of the doubt in times of crises.

The primary objective of external relations is to promote the image of the enterprise in such a way that there will be a healthy relationship between the enterprise and all its interest groups, so that its policy, products and/or services will be acceptable to these interest groups.

Successful external relations are based on open, honest communication, ethical business principles, efficient external relations officials and regular monitoring. If the business states untruths, conceals errors or misleads the public in any way, this will adversely affect the public image of the business. Communication with the public must therefore be open, and the information conveyed must be true. It is clear that external relations revolve around successful communication. For this reason it is very important that both verbal and written communication should take place effectively.

Public relations affect almost everyone who has contact with other human beings. All of us, in one way or another, practise public relations daily. For a business, every telephone call, every letter, and every face-to-face encounter is a public relations event.

Public relations is one of the eight organisational functions that must all be coordinated to enable the organisation to function effectively.



Click [here](#) for an additional self-assessment assignment on this learning unit. (Please note that you will only be able to access this from a computer.)

APPENDIX B

MULTILINGUAL GLOSSARY

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
entrepreneur	entrepreneur	usomabhizinisi	Setsebakgwebo
manager	bestuurder	umphathi	Molaodi
small business management	kleinsakebestuur	ukuphathwa kwamabhizinisi amancane	Molaodi wa kgwebopotlana
business management tasks	sakebestuurstake	imisebenzi yokuphathwa kwamabhizinisi	Mešongwana ya taolo ya kgwebo
business environment	sakeomgewing	isimo samabhizinisi	tikologo ya kgwebo
micro-environment	mikro-omgewing	izimo ezingaphansi kwabaphathi	mabaka a ka gare ao a ka huetšago tshepetšo ya kgwebo
market environment	markomgewing	isimo semakethe	mabaka ao a sego taolong ya khampani
macro-environment	makro-omgewing	izimo ezingaphandle kwabaphathi	Mabaka ao a huetšago sephetho mokgahlong
consumers	verbruikers	abathengi	Bareki
suppliers	verskaffers	abahlinzeki	Barekiši
intermediaries	tussengangers	abakhongi bemikhiqizo	Mohlolakhutšo gare ga batho ba babedi
competitors	mededingers	izimbangi	Baphenkgišani
political environment	politieke omgewing	isimo sezepolitiki	Ditiro tša mmušo tše di huetšago tshepedišo ya mokgahlo
social environment	maatskaplike omgewing	isimo senhlalo	Tikologo ye batho ba dulago go yona
physical environment	fisiese omgewing	isimo sendawo	Tikologo ye e akaretšago dilo tše di ka bonwago le go swarwa
economic environment	ekonomiese omgewing	isimo somnotho	Boemo bja ekonomi tikologong
technological environment	tegnologiese omgewing	indawo yobuchwepheshe	Mabaka a ka ntle go theknolotši ao a huetšago tshepedišo ya kgwebo
international environment	internasionale omgewing	indawo yamazwe	Tikologo ya kgwebišano le dinaga tša ka ntle

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
new economy	nuwe ekonomie	umnotho omusha	Ekonomi ye mpsha
functional perspective	funksionele perspektief	umunxa wokusebenzisana	Peakanyo yeo dikarolo tša yona di šomišanagommogo
general management principles	algemene bestuursbeginsels	imigomo evamile yokuphatha	melaο ya bolaodi ka kakaretšo
planning	beplanning	ukuhlela	go loga maano
organising	organisering	ukuhlela	go beakanya
leading	leidinggewing	ukuhamba phambili	go eta pele
control	kontrole	ukulawula	taolo
coordination	koördinering	ukubambisana	kopanyo
decision-making	besluitneming	ukwenza izinqumo	go tšea sephetho
communication	kommunikasie	ukuxhumana	kgokagano
motivation	motivering	inkuthazo	tutuetšo/tlhohleletšo
delegation	delegering	isithunywa	baromiwa
discipline	dissipline	inhlonipho	thupišo
statement of financial position	finansiële staat	isitatimende ngesimo sezimali	setatamente sa kemo ya ditšhelete
assets	bates	izinto ezibalulekile	letlotlo; thoto
liabilities	laste	izikweletu	dikoloto
owner's equity	eie kapitaal	isabelo somnikazi	setseka sa beng
financial planning	finansiële beplanning	ukuhlela izimali	leano la tšhomišo ya ditšhelete
statement of comprehensive income	omvattende inkomstestaar (omvattende wins-en-verlies-rekening)	isitatimende sazo zonke izimali ezingenile neziphumile ebhizinisini	setatamente sa ditseno le ditshenyegelo
cash flow	kontantvloei	ukusebenza kwemali	tšhelete ye e tsenago le ye e tšwago kgwebong
cost of sales	koste van verkope (koste van verkoopte goedere)	izindleko zokuthengisa	palomoka ya thekišo
liquidity	likiditeit	ukukhokha izimali ngesikhathi	kgonagalo ya go fetolela thoto go kheše
profitability	winsgewendheid	ukukwazi ukuzuzisa	bokgoni bja go dira dipoelo
leverage	hefboomkrag (bv. hefboomfinansiering)	ubuchule bokuphumelela	Tšhomišo ya peeletšo ye nnyane go hwetša dipoelo tše kgolo
forecast profits	voortgeskatte wins	izinzuzo yokwazi okuzokwenzeka	dipoelo tše di laoletšwego pele

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
break-even point	winsdrempel	ukulingana kwezindleko nenzuzo	boemo bja tekano gare ga ditseno le ditshenyegelo
marketing concept	bemarkingskonsep	itemu lokumaketha	kgopolo ye khamphani e nago le yona ka ga go kgotsofatša dinyakwa tša moreki
consumer orientation	verbruikersgerigheid	ukubonisa umthengi	magato ao kgwebo e a tšeago go kgotsofatša bareki
profit maximisation	winsmaksimering	ukwenza inzuzo ngezindleko ezincane	bokgoni bja khamphani go fihlelela dipelo tša godimodimo
integration	integrasie	ukuxubana	kopanyo
social responsibility	maatskaplike verantwoordelikheid	umsebenzi womphakathi	boikarabelo bja khamphani go kgotsofatša dikgahlego tša setšhaba seo e šomago go sona
marketing process	bemarkingsproses	uhlelo lokumaketha	tshepetšo ya go bapatša
market research	marknavorsing	ucwaningo lwemakethe	kgoboketšo ya tshedimošo ka ga mmaraka
market segmentation	marksegmentering	ukwehlukaniiswa kwemakethe	karoganyo ya mmaraka
target market	teikenmark	imakethe ehlosiwe	bareki bao mmaraka o ba nepišitšego
marketing strategy	bemarkingstrategie	icebo lokumaketha	maano a go bapatša setšweletšwa goba tirelo
product	produk	umkhiqizo	setšweletšwa
price	prys	inani	theko
distribution	verspreiding	ukusabalalisa	phatlalatšo
marketing communication	bemarkings- kommunikasie	ukuxhumana kokuzithengisa	mokgwa wa kgokagano go fihliša melaetša ya papatšo go bareki
marketing plan	bemarkingsplan	uhlelo lokumaketha	sengwalwa sa tlhalošo ya maikemišetšo a khamphani
operations function	bedryfsfunksie	umsebenzi wokwenza umsebenzi	mediro ya tšweletšo ya thoto le ditirelo peakanyong

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
operations management	bedryfsbestuur	ukulawula ukuphatha	bolaodi bja tšweletšo ya thoto le ditirelo peakanyong
product/service	produk/diens	umkhiqizo/insizakalo	setšweletšwa/tirelo
value and time	waarde en tyd	inani kanye nesikhathi	mohola le nako
transformation process	transformasieproses/omvormingsproses	uhlelo lokulungisa	tshepedišo ya phetogo
lead time	lewertyd (bestelling)/aanlooptyd (produksie)	isikhathi sokwenziwa nokuphothulwa komkhiqizo	nako ye e ka tšewago go phethagatša tiro
performance objectives	prestasiedoelwitte	izinhloso zokusebenza	maikemišetšo a tiragatšo
lean supply and agile supply	skraal en buigsame lewering/toevoer (lean and agile supply)	ukukhiqiza okudingekayo kuphela kanye nokukhiqiza ngokulandela izidingo zangaleso sikhathi	tšweletšo ya boleng bjo bontši ka didirišwa tše nnyane le mokgwa wa kabo ya phahlo go ya ka phetogo ya dinyakwa gape ka lebelo
operations systems	bedryfstelsels	izinhlelo zokusebenza	dipeakanyo tša tšweletšo ya thoto le ditirelo mokgahlong
types of layouts	tipes uitlegte	izinhlobo zokuma kokuhlelwa komkhiqizo	mehuta ya peakanyo gabotse
long-term, medium-term and short-term operations planning	langtermyn-, mediumtermyn- en korttermyn-bedryfsbeplanning	ukuhlela ukusebenza kwesikhathi eside, esiphakathi nendawo kanye nesifushane	tlhamo ya tšweletšo ya thoto le ditirelo peakanyong ya pakatelele, pakamagareng le pakakopana
capacity planning	kapasiteitsbeplanning	ukuhlela konke okuthinta inkampani	Tlhamo ya maano a go laetša bogolo bja tšweletšo
aggregate planning and master scheduling	geheelbeplanning/ totale beplanning en hoofskedulering/ hoofrooster	ukuhlelela unyaka wonke kanye nokuhlelela umkhiqizo ngamunye	maano a magareng le peakanyo ya maano a protšeke ka botlalo
operations scheduling	bedryfskedulering	ukuhlela ukusebenza	peakanyo ka botlalo ya maano a tšweletšo ya thoto le ditirelo peakanyong
forecasting	vooruitskatting	ukubhekela ikusasa	taolelopele
the five M's	vier M's en een G	o-M abahlanu	diM tše tlhano
inventory costs	voorraadkoste (inventariskoste)	izindleko zezimpahla	ditshenyegelo tša go bea diphahlo lenaneong

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
carrying costs	koste van voorraadhouding (houkoste)	izindleko z	ditshenyegelo tša go swara le go boloka lenaneo la dipahlo
operations improvement	bedryfsverbetering	ukwenza ngcono ukusebenza	kaonefatšo ya tšweletšo ya thoto le ditirelo mokgahlong
purchasing function	aankoopfunksie	umsebenzi wokuthenga	tiro ya go reka
purchasing policy	aankoopbeleid	inqubomgomo yokuthenga	molaotshepetšo wa go reka
purchasing budget	aankoopbegroting	ibhajethi ypkuthenga	tekanyetšo ya go reka
centralised purchasing	gesentraliseerde aankope	ukuthenga okuphakathi nendawo	mokgwa wa go reka wo kgoro e tee e rekelago tše dingwe
decentralised purchasing	gedesentraliseerde aankope	ukuthenga okungekho phakathi nendawo	mokgwa wo ka ona dikgoro di ithekelago phahlo ka botšona
purchasing cycle	aankoopsiklus	isiyingi sokuthenga	boati bjo ka bjona phahlo goba tirelo e rekwago
the 'right' quality	die 'regte' gehalte	isingabunjalo 'elifanele'	boleng bjo "nepagetšego"
quality of purchased materials	gehalte van aangekoopte materiale/stowwe	izingabunjalo lezinto ezithengiwe	boleng bja ditlakelo tše di rekilwego
quality control process	gehaltebeheerproses (kwaliteitskontrole-proses)	uhlelo lokulawula izinga	tshepetšo ya taolo ya boleng
inventory costs	voorraadkoste	izindleko zezinto ezithengwayo	ditshenyegelo tša lenaneo la phahlo
inventory control	voorraadbeheer	ukulawula izinto ezithengiwe	taolo ya lenaneo la phahlo
optimum stock level	optimale voorraadvlak	izinga lesitokwe elifanele	boemo bjo bokaonekaone bja phahlo
ordering systems	bestellingstelsels	izindlela zoku-oda	dipeakanyo tša korotelo
purchasing prices	kooppryse	amanani okuthenga	diporeisi tša go reka
human resource function	menslikehulpbron-funksie	umsebenzi wakwandaba zabantu	mediro ya dithuši tša batho
information management	inligtingbestuur	ukuphatha ngendlela ulwazi	bolaodi bja tshedimošo
information	inligting	ulwazi	tshedimošo
data	data	idatha/iminingwane	datha
information processing system	inligtingsverwerkingstelsel	uhlelo lokwedlulisa ulwazi	peakanyo ya phetošo ya tshedimošo

ENGLISH	AFRIKAANS	ISIZULU	NORTHERN SOTHO
fling	liassing	ukubeka izinto kumafayela	peakanyo ya ditokomane/ tshedimošo go ya ka difaele
mechanical filing	meganiese liassing	ukugcina amafayela ngomshini	mokgwa wa semotšhene wa go beakanya ditokomane/ tshedimošo go ya ka difaele
financial record-keeping	finansiële rekordhouding	ukugcina amarekhodi ezimali	poloko ya direkhoto tša matlotlo
financial registers	finansiële registers	amarejisata ezimali	direjistara tša matlotlo
incoming mail	inkomende pos	izincwadi ezingenayo	poso ye e gorogago
outgoing mail	uitgaande pos	izincwadi eziphumayo	poso ye e tšwago
telecommunication	telekommunikasie	ukuxhumana ngezingcingo	dikgokaganokgole
electronic modes of communication	elektroniese kommunikasiemiddele	izindlela zokuxhumana nge-elektronikhi	mekgwa ya kgokagano ka elektroniki
e-mail	e-pos	i-imeyili	imeile
computers	rekenaars	amakhompyutha	dikhomphutha
interest groups	belangegroep	amaqembu anentshisekelo	dihlopha tše di nago le kgahlego
internal publics	interne publieke	abantu abangaphakathi ebhizinisini	batho bao ba thapilwego ke moemedi wa khamphani
external publics	eksterne publieke	abantu abangaphandle ebhizinisini	batho ba ka ntle bao ba dirago kgwebo le baemedi ba khamphani
public opinion	openbare mening/ publieke mening	umbono wabantu	kgopolo ya setšhaba
methods of communication	kommunikasiemetodes	izindlela zokuxhumana	mekgwa ya kgokagano
social responsibility	maatskaplike verantwoordelikheid	umsebenzi womphakathi	boikarabelo bja go kgotsfatša dikgahlego tša setšhaba