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TOPIC 1

The micro environment

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TERM 1



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INTRODUCTION

The business environment consists of the micro, market and macro environments. These three environments work together and interact and support one another. When these environments are working efficiently, an organisation will have a much better chance of being successful and making a profit. An efficient organisation environment will mean satisfied employees, good management and beneficial relationships with other stakeholders.

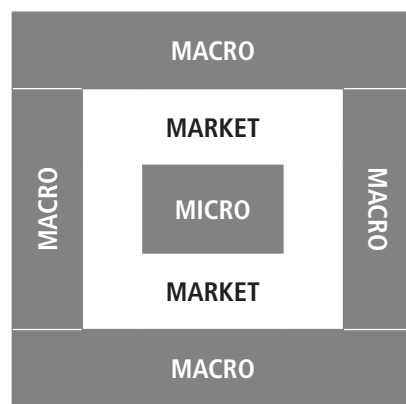


Figure 1.1 An overview of the business environment



UNIT 1: The micro environment of an organisation

The micro environment is also known as the internal environment. Within this environment, the organisation creates its character or ethos from certain elements. To understand how the organisation is organised and managed, and how it interacts with the environments around it, it is necessary to look at certain characteristics.

Vision, mission, goals and objectives

Vision is the reason the organisation exists. It is the idea which led to the establishment of the organisation and what needs to be achieved in the long term. The mission statement sets out how the vision is going to be achieved. It focuses on processes and procedures for how things should be done.

Long-term goals are the so-called 'peg in the sand', showing the specific achievements needed at a specific time. Short-term objectives are the key achievements that are set as targets, which will build up to the long-term goals and the vision of the organisation.

Organisational culture

Organisational culture includes the style of decision making by management, in other words, how management conducts its business.

Other important aspects are communication, work ethics and dress code.

Organisational resources

Organisational resources are the assets that contribute to the success of the business. These include physical (raw materials and equipment), human (people), financial (investment or capital) and technological (IT, computers and other technology) resources.

Management and leadership

Management of an organisation means the way in which the leader acts, manages and controls the resources according to a well laid-out plan. A leader is a person that inspires others and encourages action in order to achieve the vision of the organisation.

A leader also controls the management processes to make sure that things are done within set **parameters** and according to the law. The combination of management and leadership is what determines the direction and success of the organisation.

parameters: a limit or boundary which defines the scope of a particular process or activity

Management must:

- Define the vision and set the goals and objectives of the organisation
- Communicate plans to the employees in order to achieve the set goals
- Implement plans and processes to achieve the goals.

Business organisational structure

The business organisational structure determines the processes and procedures in which everything is organised. It includes the eight management functions:

1. General management
2. Purchasing
3. Production
4. Marketing
5. Public relations
6. Human resources
7. Administration
8. Finance.

The functions may differ, depending on the organisation and environment. It may differ because of the:

- type of management structure (organogram)
- size of the organisation
- different departments in an organisation
- number of employees and managers
- organisation chart with locations or departments
- how different departments are linked and arranged.

A basic organisation chart has four levels.

Level 1 Senior management

Managing director (MD)

Level 2 Divisional managers

- Production
- Finances
- Marketing
- Human resources
- Warehousing and distribution

Level 3 Managers

- Factory manager No. 1, Factory manager No. 2
- Financial manager
- Marketing manager: Region 1 and Region 2
- Human resources manager No. 1, Human resources manager No. 2
- Central warehouse manager

Level 4

- Production foremen: two for each factory
- Accountant for each factory
- No marketing function at the factory
- Human resources officer at each factory
- Distribution and despatch foreman at each factory

UNIT 2: Eight functions and activities of business

Most of the eight business functions are present in every organisation. It may be that there is no dedicated or separate department for one of the functions, but the task must still be performed and the organisation will need to adapt.

There may not be a production function in an organisation where goods are not manufactured or there is no service department in a factory. Smaller companies tend to combine the marketing and public relations functions into one department.

The functions within the organisation

Table 1.1 The eight functions and activities within an organisation

Purchasing	Makes sure that the needs of all the departments are met in a co-ordinated way at the best price and the best quality and correct quantity.
Production	Combines the raw materials, parts and processes to produce finished products.
Financial	Provides funding or cash so that all expenses can be paid and services delivered.
Marketing	Communicates with the customers and market stakeholders to promote the products and services.
General management	Combines the processes, input and resources so that the objectives of the organisation can be achieved.
Administration	Controls administrative processes, communication, management information systems and keeps records.
Human resources	Responsible for staffing and maintenance of employee systems, benefits and remuneration structures.
Public relations	Deals with interaction between all stakeholders on social and environmental issues within and outside of the organisation.

General management

Management is a combination of processes, systems and activities to make sure there is effective use of resources. Management also measures and controls outcomes so that the organisation’s objectives are reached. Top, middle and lower management are levels of management within the company structure.

Management must perform certain tasks, namely planning, organising, activating, leading, directing and controlling. The levels, functions and tasks are integrated responsibilities of being a manager. Look at Figure 1.2 below to see the different dimensions of influence.

Business organisational and management structure

Figure 1.2 below shows the levels of decision making in an organisation:

- **Strategic decisions** are decisions made in terms of the organisation’s vision, mission and goals.
- **Tactical decisions** are decisions made on implementation processes, procedures and strategies in order to give credibility to the strategic plans.
- **Operational decisions** are the action plan-based decisions to ensure that actions are taken so that goals are achieved.

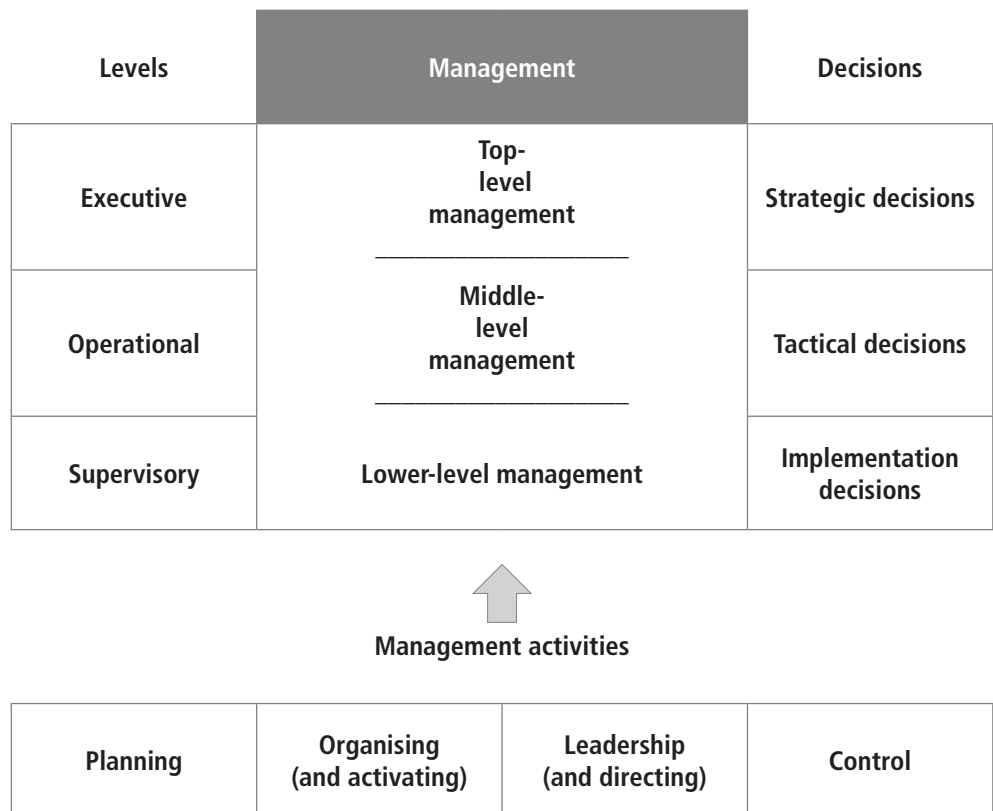


Figure 1.2 Structural influence of management

Table 1.2 shows that the tasks of a manager will support the processes and levels of decision making.

Table 1.2 The tasks of managers

Planning	Define the actions necessary to achieve the goals	<ul style="list-style-type: none"> • Use an overall planning approach. Specify how the job needs to be completed. • What results are needed? • Assign responsibilities to specific functions or persons.
Organising	When, where and who will do what in terms of the actions	<ul style="list-style-type: none"> • Decide how many people and who is needed. • Allocate roles and responsibilities. • Structure tasks and define actions.
Activation *	Starting the actions according to the plan	<ul style="list-style-type: none"> • Approve activities and expenditure, and allow action to take place. • Communicate with stakeholders who may be affected. • Communicate expected results.
Leading	Providing the guidance, direction and support towards the action plans	<ul style="list-style-type: none"> • Provide guidance and influence levels of performance. • Delegate to and support and develop subordinates. • Communicate and motivate. • Be compliant with processes and policies.
Directing *	Keeping track and making sure there is compliance	<ul style="list-style-type: none"> • Have effective communication. • Give direction and avoid conflict or confusion.
Controlling	Measure actions and results against the policies and procedures, budget and timelines	<ul style="list-style-type: none"> • Confirm the understanding of expected outcomes. • Confirm the results achieved and measure these against standards. • Set corrective actions in motion if there is deviation from the expected results.

* These tasks were not part of the original definition of ‘management’ as per Louis A. Allen – considered to be the father of defining management as a science.

Levels and impact of management functions

The table below gives an overview of what it means to be top- middle- and lower-level management.

Table 1.3 Structural functionality of management levels

	Job titles	Responsibilities	Impact
Top-level management	<ul style="list-style-type: none"> • Executives • Directors • Managing members • Partners in a partnership • Owners 	<ul style="list-style-type: none"> • Vision/mission • Make long-term (strategic) decisions. • Set goals for the overall enterprise. 	<ul style="list-style-type: none"> • Control the overall destiny of the organisation. • Influence the different levels of management. • Manage culture and ethos of the organisation.
Middle-level management	<ul style="list-style-type: none"> • Divisional managers • Heads of departments • Heads of functional departments (e.g. marketing manager) 	<ul style="list-style-type: none"> • Give tactical direction to divisions or departments. • Initiate actions to achieve set goals. 	<ul style="list-style-type: none"> • Give direction. • Implement plans. • Give guidance in respect to policy and procedures. • Measure results.
Supervisory-level management	<ul style="list-style-type: none"> • Supervisors • Charge hands • Team leaders • Floor managers • Sales/Account managers 	<ul style="list-style-type: none"> • Implement short-term goals. • Give operational instructions. • Control and measure short-term results. 	<ul style="list-style-type: none"> • Control shop floor actions. • Direct results. • Correction of first line discrepancies.

The role and importance of the functions within the organisation

The role and importance of the eight business functions must be seen as different aspects of the same element in the micro environment of the organisation. Every aspect can be looked at separately, but must be considered as an element of the overall management process.

Table 1.4 The role and importance of the eight business functions

Function	Role and importance
Purchasing	<ul style="list-style-type: none"> • Buys raw materials, parts, equipment, furniture, stationery and other requirements for employees to be able to do their jobs. • Checks for the best quality, right quantity and the right price. • Controls the process of receiving, distribution and storage within the organisation. • Controls stock levels.
Production	<ul style="list-style-type: none"> • Produces the goods required to specification, and in the right quantities. • Assembles finished products from the parts as per specification. • Maintains quality and safety standards.
Financial	<ul style="list-style-type: none"> • Sources and applies capital for the business needs. • Controls the cashflow. • Maintains a full set of records, reports and financial statements.

Table 1.4 (cont.)

Function	Role and importance
Marketing	<ul style="list-style-type: none"> Controls the four Ps of marketing (Price, Promotion, Product, Place). Ensures the correct mix to promote optimum sales Promotions and advertising programmes Selling functions.
General management	<ul style="list-style-type: none"> Defines the vision, mission and overall objectives of the organisation Combines and controls all the functions within the organisation Co-ordinates the planning, organising, control and leadership elements within the organisation.
Administration	<ul style="list-style-type: none"> Designs processes, procedures and actions to control all activities Maintains all paperwork filing or information technology (IT) records and forms design Collects data and information as required and processes into useful information if necessary or requested Creates management reports Record keeping.
Human resources	<ul style="list-style-type: none"> Recruits and selects suitable employees as required Maintains staffing levels as required Trains, develops and promotes employees to ensure personal growth and career development Tracks and reports on performance and productivity levels.
Public relations	<ul style="list-style-type: none"> Deals with the social and environmental issues as needed Works on and maintains good relationships within the community and market environment of the organisation Ensures that there are positive relationships between employees and stakeholders.

Administration

Administration is seldom a separate function in an organisation, but rather a set of policies and procedures for everyone in the organisation to follow and abide by. It will be assigned to a specific department to be the **custodian** of the rules, regulations, policies and procedures. The finance or legal departments will often be that custodian. All other departments will have applicable administrative duties, rules or guidelines to follow within their spheres of influence. Keeping records and reporting, as well as auditing and legal compliance, are often sub-sections of administration.

custodian: a person responsible for taking care of, or protecting something

Handling of information and data

The difference between information and data is in the interpretation of data (a set of facts with no order or purpose) and, after arrangement and analysis, it becomes information as you can now make deductions or draw conclusions on what the data means. Turning data into information follows a process:

hypothesis: an unproven statement that will be confirmed after researchers have collected data and an analysis has been done

Step 1: Set the parameters of what the data must be able to tell you.

Step 2: Identify the type of data and how you will collect it.

Step 3: Collect the data.

Step 4: Feed the data into a system for analysis and interpretation.

Step 5: Check the results against the **hypothesis** formulated in Step 1.

Step 6: Formulate and distribute a report on the findings.

MIS: Management Information System

DSS: Decision Support System

Data must also be:

- accurate
- insufficient quantity
- available
- cost effective.

Management of information

The purpose of information is to help managers make quality decisions. The better the quality of the information, the more accurate the decisions will be. The system of management information system (MIS) or the decision support system (DSS) helps management in this process.

Office practice

Office practice is the process and systems all office employees must follow when collecting, working with and storing information. The modern approach is a tendency to store data and information in electronic format rather than on paper.

Information technology

If the tendency is to collect, use and store information electronically, it is important to have the equipment to accommodate the process and trained staff to use the equipment and computer programs. The systems must also be interlinked to produce the best results. Examples are computers, scanners and telephones.

ACTIVITY 1.1 Collect information from basic data

Look at the questions below and formulate a hypothesis on what you think the answers will be.

1. Collect the following data from all the learners in your class.
 - a) How old are you?
 - b) Are you male or female?
 - c) What is your home language?
 - d) Do you have a cell phone?
 - e) Do you have access to a computer?
 - f) Do you have access to the internet?
2. Calculate the percentage of answers in each instance.
3. Write a short report on your findings.

Financing

The finance department is responsible for sourcing and applying capital for the organisation's needs, controlling the flow of money in and out of the organisation, and keeping records of all financial transactions for management and reporting purposes.

Classification of types and sources of finance:

- **Equity** is financing that does not require payback or interest, such as the selling of shares to shareholders.
- **Debt** is the money on loan from a financial institution, such as a bank. The money has to be paid back with interest.
- A **grant** comes from government institutions to promote a particular cause for the country (such as job creation).

Budgeting

Budgeting is the process of planning the flow of money (cash):

- into the organisation by way of sales or services
- out of the organisation by way of expenses
- between investors and owners through the movement of capital and profits.

Investments

Investment occurs when an organisation puts some of their money (cash) into an account at a bank or fund so that interest can be earned and value growth can take place. The terms of investments can be short term, such as a savings deposit account, or long term, such as shares or a long-term fixed deposit account. The interest contributes to the organisation's profit.

Types of capital

Capital is the finance the organisation uses to do business and to earn profits.

Table 1.5 Types of capital

	Fixed capital	Working capital
Definition	<ul style="list-style-type: none"> • Buildings and property, equipment and vehicles • This enables the organisation to do business. 	The money used on a regular basis for doing business, such as paying rent or buying stock.
Source	Own capital: <ul style="list-style-type: none"> • Owner/shareholder funding • Retained profits • Sale of excess equipment. Borrowed capital: <ul style="list-style-type: none"> • Long-term loans such as a bond on property • Lease contracts on vehicles or equipment. 	<ul style="list-style-type: none"> • Trade credit • Bank overdraft facilities • Short-term loans from the bank • Debtor factoring and retained profit • Leasing agreements for equipment
Budget placement	A capital budget is part of the long-term planning of the organisation.	<ul style="list-style-type: none"> • Business/management budget • Short-term scheduling of funding

Purchasing

The purchasing department:

- buys raw materials, parts, equipment, furniture and stationery and other requirements for employees to be able to do their jobs
- checks for the best quality, right quantity and the right price
- controls the process of receiving, distribution and storage within the organisation
- controls stock levels.