

Micro environment

Introduction

- There are THREE components of the business environment.
- These are the micro, market and macro environments.
- The components are interrelated and can have an effect on each other.

Unit 1 Components of the micro environment

1.1 Vision, Mission, Goals and Objectives

Vision	Mission
Vision should be clear and concise, giving an idea of a desired image. It reflects: the dream of the business what it wants to become in the future	The mission will: <ul style="list-style-type: none"> • describe the purpose and basic activities of the business • explain why the business exists • explain how it aims to achieve its vision.
Goals	Objectives
Goals are long term aims that the business expects to achieve: <ul style="list-style-type: none"> • It gives the business a sense of direction. 	Objectives explain how a goal will be reached: <ul style="list-style-type: none"> • Short-term steps of how a goal will be reached.

1.2 Organisational culture

- Organisational culture is the personality of the organisation.
- Culture is made up of different beliefs, values, norms and expectations of employees and management.
- It influences people's actions and attitude.
- Positive culture helps staff to be motivated and productive.
- A negative culture makes workers feel discouraged, disinterested and could lead to conflict.

1.3 Organisational resources

Physical Resources	Financial Resources
Timber, fruit, fish, factory machinery, trucks, machinery and equipment, land and buildings, computers, telephone	<ul style="list-style-type: none"> • Capital – own and borrowed
Information and Technological Resources	Human Resources
Books, statistics, websites, emails, research articles	Employees

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1.4 Management and leadership

- Managers have FOUR main tasks or basic activities (POLC):

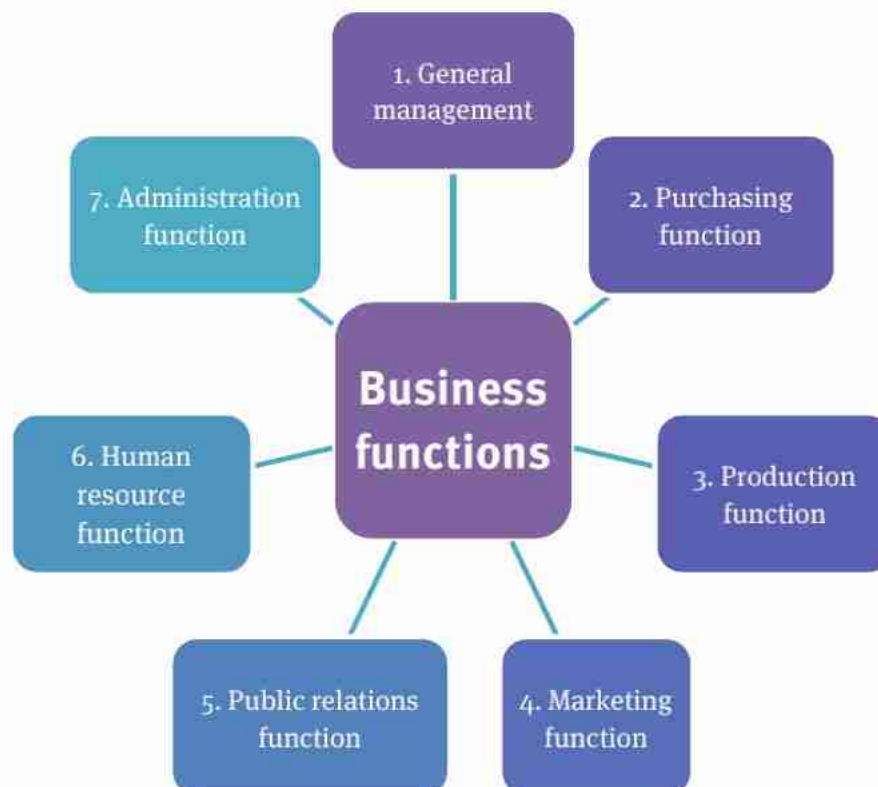
Planning	Organising	Leading	Control
Look at what you need to do. Decide how to do it.	Use all resources in the business to achieve goals.	Guide and motivate people to carry out plans of business. Give direction.	Check that business activities are carried out as planned.

- All managers need to carry out these tasks for their areas of responsibility.
- The balance of the FOUR main tasks will differ from business to business and from one level to another.

1.5 Business organisational structure (organisational chart / organogram)

- Every business must be organised into a basic structure that shows:
 - tasks
 - level of authority
 - responsibility.
- Structure shows flow of instructions and feedback.

1.6 Eight functions and activities of the business



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1.6.1 General management

Manage and oversees the other seven business function by planning, organising, leading and control, so that business goals can be achieved.

1.6.2 Purchasing function

Buys goods and services needed by other functions. Goods and services must be bought at the right price and time, in the right quantities and of the right quality.

1.6.3 Production function

Changes raw materials into finish products by combining raw materials with labour, capital and entrepreneurial skill.

1.6.4 Marketing function

Responsible for sale of goods and services to meet needs of consumers. The right product must be sold at the right price in the right place and using the best promotion.

1.6.5 Public relations function

Responsible for creating a positive image of the business to the public.

1.6.6 Human resource function

Responsible for finding the correctly qualified employees as well as training, evaluating and remunerating them.

1.6.7 Administration function

Responsible for collecting and processing information used for decision-making as well as general office work such as filing and storing of information.

1.6.8 Financial function

Responsible for planning and managing all the funds and assets in the business as well as investments.


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Unit 2 Eight business functions


1 General management

- General management must create a vision and mission for the business, and ensure these are achieved through goals and objectives.
- Effective planning, organising, activating, leading, directing and controlling of resources and functions is necessary.
- If these tasks are too much for one person, they can be delegated to other members of staff.

1.1 Levels of management

Top-level managers		
Responsibilities	Alignment between levels	Examples of organisational positioning
Plan the future by setting goals, objectives. They make long-term strategic (what the business will do and why) decisions.	Holds the most authority and communicates instructions to middle-level managers 	Chief Executive Officer (CEO), Chairperson of the Board, Managing Director (MD)

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Middle-level managers		
Responsibilities	Alignment between levels	Examples of organisational positioning
<p>Also called functional level managers, responsible for functions.</p> <p>Make medium-term tactical (how the business will carry out strategic decisions) decisions.</p> <p>Turn tactical decisions into action.</p> <p>Monitor activities in departments to give suggestions and feedback.</p>	<p>Second level of authority; interprets instructions of top-level managers and communicates instructions to lower-level managers.</p> 	<p>Marketing Manager, Production Manager, Financial Manager, Human Resource Manager</p>
Lower-level managers		
Responsibilities	Alignment between levels	Examples of organisational positioning
<p>Responsible for smaller work areas, more specialised for teams of workers.</p> <p>Implement objectives of middle-level by making routine decisions and day-to-day activities.</p> <p>Short-term planning, setting individual objectives for workers, allocating tasks on daily basis.</p> <p>Feedback to middle management.</p>	<p>Interprets instructions of middle-level managers to activate strategic planning of top-level managers and tactical planning of middle-level managers.</p>	<p>Foreman in production department, supervisor in sales department</p>

1.2 Management tasks

1.2.1 Planning

- Process in which manager considers future, sets goals and objectives.
- Decides how to carry out activities in business to achieve goals and objectives.

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Manager must ask the following questions when planning:

WHY is the plan necessary?

WHERE must the planned activities take place?

WHO will carry out the activities?



WHAT activities are needed to carry out the plan?

WHEN will the activities start?

HOW should the plan be carried out?

The following steps can be used to plan:

- Step 1: Obtain all information.
- Step 2: Analyse information and set long-term goals.
- Step 3: Consider different plans to achieve goals.
- Step 4: Choose best plan.
- Step 5: Decide on a back-up plan (contingency plan).
- Step 6: Implement chosen plan.
- Step 7: Follow up to make sure plan is successful.

1.2.2 Organising

Organising is the process of:

- looking at what needs to be done
- organising resources (including people) in such a way that you meet your goals and objectives
- organising the jobs within specific functions or departments.

1.2.3 Leading

- The process of leading is to guide, motivate and inspire others.
- A leader provides people with direction.
- A leader activates workers and inspires them to take action and to do their jobs well.
- Leaders must set up proper communication channels.

1.2.4 Control

- Control is about making sure (checking) that activities are carried out according to plan.
- This is done through careful observation and by asking people for feedback.
- Management must investigate reasons for failure.

2 Administration

Responsible for all tasks and activities in the office such as:

- handling of information
- management of information
- office practice and information technology.

2.1 Handling information

- Collect data.
- Process data into information.
- Store information.

2.2 Management of information

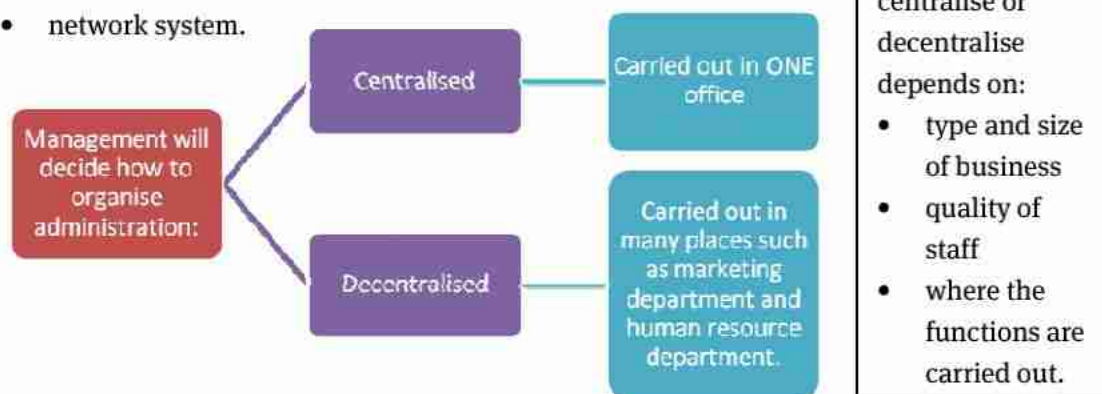
Information needs to be updated regularly, be correct and complete. The following information would be important for decision-making:

- accounting records (financial statements)
- budgets (estimated income and estimated expenses)
- statistics (trends and calculations such as arithmetic mean, frequency distribution, mode, median, range)
- cost accounting (calculating how much it costs to make a product, keeping in mind the raw-materials, labour and other costs involved)

2.3 Office practice and information technology

2.3.1 Office practice includes:

- handling of mail
- copying documents
- filing
- network system.



2.3.2 Information technology includes the use of computers to create, store and communicate information. The advantages of information technology include:

- improved communication in the business amongst departments
- improved communication with customers, suppliers and other external stakeholders
- automatic capturing and processing of data through programmes such as PASTEL, QUICKBOOKS, OMNI-ACCOUNTS.

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- improved financial systems with recording of sales through scanning devices and computerised Point of Sale (POS) systems where stock and debtors are updated immediately
- scanning documents to be used in the business
- computerised storage devices such as memory sticks, CDs, DVDs and external hard-drives.

3 Financing

Financial activities include:

- planning how much money is needed
- obtaining money
- managing money in all departments
- planning and overseeing investments.

3.1 Types and sources of financing

3.1.1 Own funds

- Money that owners supply as capital, or profit from operations
- The number of owners who contribute depends on the form of ownership
- No interest to be paid

3.1.2 Borrowed funds

- Borrowed money is debt
- Can borrow from individuals, financial institutions, buy on credit
- Can be long-term or short-term
- Interest needs to be paid

3.2 Sources of financing

Sources of own funds:

- Personal savings
- Retained profits
- Selling of assets

Sources of borrowed funds:

- Friends and family
- Term loans
- Bank overdrafts
- Trade credit
- Instalment sale
- Lease
- Debentures

3.3 Budgeting

A budget is a written document showing planned income and estimated expenses for a specific period of time. This can be:

- short-term (one month to less than a year)
- medium-term (a year)
- long-term (a number of years).

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The purpose of drawing up a budget is to:

- plan ahead
- compare actual income and expenditure to the amounts budgeted
- control expenditure
- check income
- show possible future financial problems.

Business sources of income and expenditure include:

- income: from sales or services, interest, rent, commission
- expenses: capital expenses, operating expenses and financing expenses.

3.4 Investments

- Investments are money set aside for future use.
- Surplus money must be invested to gain interest.

3.4.1 Short-term investments:

- savings accounts
- notice accounts
- money market accounts.

3.4.2 Long-term investments:

- fixed deposits
- debentures
- government bonds
- property
- shares.
- High risk investments offer high return on investment; low risk investments are stable but offer lower returns.

3.5 Types of capital

3.5.1 Fixed capital (Long-term)	3.5.2 Working Capital
<p>Large amounts of money are needed to buy fixed assets such as land and buildings, vehicles, equipment. Amount of fixed capital depends on:</p> <ul style="list-style-type: none"> • nature of the business (manufacturing is expensive) • size of the business (larger business needs more capital) • stage of the business (start-up capital is more than capital for an existing business). 	<p>Working capital is money needed to run a business on a daily basis, such as buying trading stock, raw materials, paying salaries. The amount of working capital needed depends on:</p> <ul style="list-style-type: none"> • nature of the business (supermarket needs more stock than a service business) • size of the business (large business has more operating expenses like rent and salaries) • stage of development (a new and growing business needs more working capital as there are no savings) • time of production process (a long production process will need more working capital before product is sold)

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- rate of stock turnover (food products sell faster than car parts)
- buying and selling terms (selling cash or credit)
- seasonal consumption (air conditioners only needed when it is summer)
- seasonal production (crops grown and harvested)

4 Purchasing

The aim of the purchasing function is to make sure that the business has all the necessary goods and services needed to run the business efficiently.

Purchasing could be for:

- resale
- conversion into semi-finished or finished products
- own use such as cleaning materials, transport.

4.1 Purchasing procedures or processes

- Step 1 Purchasing requisition
- Step 2 Gather information
- Step 3 Choose a suitable supplier
- Step 4 Place order
- Step 5 Follow up
- Step 6 Receive stock ordered
- Step 7 Distribute goods
- Step 8 Pay supplier and file documents

4.2 Activities of the purchasing function

- The right quality
- The right quantity
- The right supplier
- The right price

4.3 Stock control

- Have a system to check how much stock is available.
- Keep records of changes in stock.
- This can be done electronically.
- Electronic systems keep record of cost and sales prices and help to keep the right levels of stock.
- Poor stock control can affect cash flow negatively.
- For better cash flow the business must buy on credit from suppliers and sell for cash.
- Buying stock for cash and selling on credit results in a cash flow problem.

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4.4 The National Credit Act (NCA) 34 of 2005

The Act gives rights to consumers and helps them to be informed to make the right decisions.

4.4.1 The NCA introduced new rights for consumers:

- Right to fair credit marketing practices.
- Right to apply for credit.
- Right to be protected from unfair discrimination in granting credit.
- Right to be given a reason why an application for credit is refused.
- Right to be informed about the interest rate and other costs of the proposed credit transaction before the consumer enters into a credit agreement.
- Right to receive a credit contract in plain understandable language.
- Right to receive a copy of a credit contract and a replacement copy when the consumer asks for one.
- Right to apply for debt counselling if customers have too much debt.

4.4.2 The NCA also introduced responsibilities of credit providers:

- Lend money in a responsible manner.
- Make sure customers don't borrow more than they cannot afford.
- Ensure that the full cost of the credit purchase is shown.
- Ensure that customers understand the costs, risks and obligations of the credit agreement.
- Ensure documents are written in plain, understandable language.

Credit providers are prohibited by the NCA from:

- making use of misleading or deceptive advertising
- harassing customers to apply for credit
- increasing customer's credit limit without their permission
- charging customers more than the specified service fees and charges required.

4.4.3 Remedies

- The National Consumer Tribunal acts as an informal court by listening to consumers' complaints about credit agreements or credit providers.
- The Tribunal aims to solve problems that customers experience.
- The Tribunal can order a credit provider to comply with the stipulations of the NCA.

4.4.4 The impact of the NCA on the purchasing function

- The NCA has a positive impact on credit purchases of businesses.
- Every business is now protected against misleading credit suppliers that charge high costs and interest rates on credit agreements.

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4.5 The National Consumer Protection Act 68 of 2008 (CPA)

The Act gives consumers far more rights to hold suppliers accountable and its purpose includes:

- protecting consumers from misleading marketers
- offering consumers protection
- helping historically disadvantaged people to know their rights.

The purpose will be achieved by:

- promoting and protecting the social and economic interest of consumers
- making sure consumers understand marketing-related terminology
- making it possible for consumers to get the right quality information to make the right choices
- promoting the well-being of consumers by protecting them from dangers to their own safety
- developing effective ways for consumers to address problems
- providing and promoting consumer education.
- make sure consumers have the freedom to form groups to support their common interests
- promoting consumers to participate in decision-making processes in the marketplace.

4.5.1 The Act specifies consumer rights.

- right to equality in terms of marketing
- right to privacy by limiting unwanted direct marketing
- right to choose and authorise the purchase of goods and services
- right to disclosure and information which means that information about the product or service must be in plain, understandable language
- right to fair and responsible marketing so that consumers are not misled by false marketing
- right to honest dealing and fair agreements
- right to fair, just and reasonable terms and conditions to protect consumers from dishonest marketers
- right to fair value, good quality and safety of goods and services.

4.5.2 Remedies

If consumers feel that their rights have being violated by suppliers, complaints can be taken to:

- the Consumer Tribunal
- the National Consumer Commission
- a Consumer Court or any other Court who can rule over the dispute
- an applicable ombudsman.

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4.6 Impact of National Credit Act and the National Consumer Protection Act on the purchasing function

The purchasing function will have to make sure that they purchase quality products from responsible suppliers because consumers are protected by the CPA.

5 Public relations

5.1 Importance of public relations

- Public relations need to create a good name and positive image.
- Good relationships with stakeholders (employees, suppliers, consumers, government, trade unions and media) are needed.
- Some important aspects are:
making sure employees are happy and treat customers well
supporting environmental projects
supporting community projects
building positive relationships with trade unions
acting ethically – be responsible, complying with legislation to avoid bad publicity.

5.2 Methods of public relations

- The media
- Direct contact and communication
- Brochures and pamphlets
- Shows and exhibitions

Unit 3 Functions in the business

1 Role and importance of the functions within the business

- The eight business functions are necessary for the business to achieve its goals and objectives.
- The balance between the functions depends on the mission, vision, goals and objectives and is determined by the owners.
- How the functions are organised depends on:

1.1 The size of the business

In a small business the functions may be combined. In a medium sized to large business they can appoint one or many people to work in each function.

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1.2 The nature of the business

- Manufacturing – manufacturers need large production departments because the work is physical.
- Retail – business does not need a large production department because they produce a service of selling to customers. Production may therefore combine with marketing.
- Service business – does not need a production department but needs someone to oversee the service.

2 The relationship between the business functions

All eight functions depend on each other and are interrelated. Examples of functions that relate closely to one another are:

- Financial and Administration – both functions gather, record, process and store data and information necessary for running a business.
- Purchasing and Production – both responsible for delivery of goods and services. Purchasing buys raw materials needed by production.
- Marketing and Production – marketing sells the product production makes. Functions work together to make sure the right product is made.
- Marketing and Public relations – marketing promotes products and public relations promote the business. Both communicate with customers.
- Human resources and all other functions – all functions need staff and human resources provide staff with the right skills.

3 Interrelation of business functions

A decision made in one function will impact on other functions.

Unit 4 General management

Management operates on three levels:

1.1 Top management

The names given to top management depends on the form of ownership. In a sole proprietorship or partnership top management will be referred to as the manager whilst in companies it will be the board of directors, president, managing director or chief executive officer. Their tasks include:

- Control and oversee other departments.
- Develop goals, strategic plans and policies for the long term.

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1.2 Middle management

These managers are in charge of a business function, for example the marketing manager, the administration manager. Their tasks include:

- Putting plans of top management into action.
- Act as a link between top management and lower management.
- Guide and inspire lower-level management.

1.3 Lower-level management (first-level managers)

These are supervisors or foremen. Their tasks include:

- Controlling and directing of day-to-day activities of workers.
- Responsible for quality and quantity of production.
- Motivate workforce and give performance feedback to workers.

Unit 5 The concept of quality

1 Quality

1.1 Quality in the human resources function

It is important that employees have knowledge and skills to keep customers happy. The human resource function ensures the business employs the right people and can improve through:

- maintaining healthy relationships between employees and employer
- good working conditions
- proper discipline
- motivation and rewards
- understanding goals and objectives
- understanding interrelatedness of different departments

1.2 Quality products

Methods used to indicate quality include:

- trademarks – special signs, marks or names used by manufacturers
- samples – a small portion of product given to consumers to test quality
- grades – agricultural products are classified according to quality
- commercial standards – the SABS approves commercial standards of products.

1.3 Quality administration processes

- The quality of administration is measured by how smoothly the system runs.
- Information must be useful and available to management when needed.
- The following criteria regarding information must be met:
correct and complete; available at the right time; meaningful; cost effective; meet legal requirements.

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1.4 Quality in financial function

- Owners expect a return on the money they invested into the business.
- The financial function makes sure that the business makes profit and can pay its debts.
- This is done by:
 - drawing up financial statements
 - drawing up budgets for all other departments
 - analysing and evaluating the performance of the business.

1.5 Quality management

- Success of the business and relationships between business functions will depend on planning, leading, organising and control of the management function.
- Management has to maximise profits by producing good quality products and services.

1.6 Quality promotion

The public relations function should promote a good image of the business, resulting in:

- an increase in sales and profit
- growth as more investors are attracted
- happy employees.

In a small business the owner does the public relations and in a large business a specific person can be appointed as a public relations officer (PRO). It can also be outsourced by giving the task to an outside agency.

Unit 6 Management and the success of the business

- The manager must assess the success of the business in achieving its objectives.
- Strengths are all the positive aspects linked to the internal business environment.
Weaknesses are all the negative aspects linked to the internal business environment.
- Strengths and weaknesses can be contrasted and strategies devised to overcome weaknesses.