HIGHER CERTIFICATE IN BUSINESS MANAGEMENT

Fundamentals in Business Management

(Strategic Management I)

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This study guide highlights key focus areas for you as a student. Because the field of study in question is so vast, it is critical that you consult additional literature.
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1. WELCOME TO REGENESYS

At Regenesys, we assist individuals and organisations to achieve their personal and organisational goals, by enhancing their management and leadership potential. We approach education and development holistically, considering every interaction not only from an intellectual perspective but also in terms of emotion and spirituality. Our learning programmes are designed to transform and inspire your mind, heart and soul, and thus allow you to develop the positive values, attitudes and behaviours which are required for success.

Having educated over 70 000 students based in highly reputable local and international corporations across over 40 countries in the past 14 years, Regenesys is now one of the fastest-growing and leading institutions of management and leadership development in the world.

Regenesys’ ISO 9001:2008 accreditation bears testimony to our quality management systems meeting international standards. Regenesys is accredited with the Council on Higher Education. Our work is rooted in the realities of a rapidly changing world and we provide our clients with the knowledge, skills and values required for success in the 21st century.

At Regenesys, you will be treated with respect, care and professionalism. You will be taught by business experts, entrepreneurs and academics inspired by their passion for human development. You will be at a place where business and government leaders meet, network, share their experiences and knowledge, learn from each other, and develop business relationships. You will have access to a campus, in the heart of Sandton, with the tranquillity of a Zen garden, gym and meditation room.

We encourage you to embark on a journey of personal development with Regenesys. We will help you to awaken your potential and to realise that everything you need to succeed is within you. We will be with you every step of the way. We will work hard with you and, at the end, we will celebrate your success with you.

Areas of Expertise

“Have a vision. Think big. Dream, persevere and your vision will become a reality. Awaken your potential knowing that everything you need is within you.”
- Dr. Marko Saravanja.
1.1 Teaching and Learning Methodology

Regenesys uses an interactive teaching and learning methodology that encourages self-reflection and promotes independent and critical thinking. Key to the approach utilised is an understanding of adult learning principles, which recognise the maturity and experience of participants, and the way that adult students need to learn.

At the core of this is the integration of new knowledge and skills into existing knowledge structures, as well as the importance of seeing the relevance of all learning via immediate application in the workplace.

Practical exercises are used to create a simulated management experience to ensure that the conceptual knowledge and practical skills acquired can be directly applied within the work environment of the participants. The activities may include scenarios, case studies, self-reflection, problem solving and planning tasks.

Training manuals are developed to cover all essential aspects of the training comprehensively, in a user-friendly and interactive format. Our facilitators have extensive experience in management education, training and development.

1.2 Aligning Organisational, Team and Individual Objectives

This course will draw on a model developed by Regenesys Management, which demonstrates how the external environment, the levels of an organisation, the team and the components of an individual are interrelated in a dynamic and systemic way. The success of an individual depends on his/her self-awareness, knowledge, and ability to manage successfully these interdependent forces, stakeholders, and processes.

The degree of synergy and alignment between the goals and objectives of the organisation, the team and the individual determines the success or failure of an organisation. It is therefore imperative that each organisation ensures that team and individual goals and objectives are aligned with the organisation’s strategies (vision, mission, goals and objectives, etc.); structure (organogram, decision-making structure, etc.); systems (HR, finance, communication, administration, information, etc.); culture (values, level of openness, democracy, caring, etc.). Hence, an effective work environment should be characterised by the alignment of organisational systems, strategies, structures and culture, and by people who operate synergistically.
2. **INTRODUCTION**

Welcome to the Fundamentals of Business Management (Strategic Management I) module (STRAT). This module does not stand alone but forms an integral part of the business management field of study.

The aim of this module is to enable students to understand the fundamentals of Business Management. It is to provide insight into general management concepts and develop an understanding of the business environment. The knowledge and skills obtained in this module are applicable at all levels of management. The learning content and activities contained in this study guide will provide you with opportunities to explore the latest developments and practices in this field.

The module starts off by introducing general management to you; this followed by an in-depth discussion of the management functions. This module deals with the fundamentals and lays the
foundation for understanding business management. The compulsory assignment question as well as what you can expect in the examination is contained in this study guide.

Good luck with your studies!

Please read through this study guide carefully, as it will influence your understanding of the subject matter and the successful planning and completion of your studies.

3. **Icons used in this Study Guide**

Icons are included in the study guide to enhance its usability. Certain icons are used to indicate different important aspects in the study guide to help you to use it more effectively as a reference guide in future. The icons in this study guide should be interpreted as follows:

- **Definition**
  The definitions provide an academic perspective on given terminology. They are used to give students a frame-of-reference from which to define a term using their own words.

- **Interesting source to consult**
  The source icon is used to indicate text sources, from the Internet or resource centre, which add to the content of the topic being discussed.

- **Self-reflection**
  Self-reflection is an action which the students need to complete on their own time. It requires students to think further about an issue raised in class or in the learning materials. In certain instances, students may be required to add their views to their assignments.

- **Examples**
  The example icon is used to indicate an extra/additional text that illustrates the content under discussion. These include templates, simple calculation, problem solution, etc.

- **Calculations**
  Any mathematical or linguistic formulae and calculations are indicated by this icon.
Tasks
The task icon indicates work activities that contact students must complete during class time. These tasks will be discussed in class and reflected upon by students and facilitators. E-learning students can use these tasks simply to reinforce their knowledge.

In a nutshell
This icon indicates a summary of the content of a section in the workbook and to emphasise an important issue.

Video clip or Presentation
This icon indicates a URL link to a video clip or presentation on the subject matter for discussion. It is recommended that students follow the link and listen/read the required sources.

Note
This icon indicates important information to of which to take note.

4. Study Material for the Module

You have received material that includes the following:

- Study guide;
- Recommended reading;
- Assignment.

These resources provide you with a starting point from which to study the contents of this module. In addition to these, other resources to assist you in completing this module will be provided online via the link to this module. Guidance on how to access the material is provided in the Academic Handbook which you received when you registered for this qualification.

Additional resources that will be provided include:

- List of recommended books and articles;
- Feedback letters.

The aim of providing additional material is to broaden your understanding of, and interest in the subject. Additional feedback letters serve to provide feedback on the assignments and
guidelines for studying towards the examination. These feedback letters form an integral part of
the module and must also be studied.

5. RECOMMENDED RESOURCES

A number of recommended resources have been identified to assist you in successfully
completing this module.

5.1 RECOMMENDED ARTICLES

- Finchman, J.E. (n.d.) Basic Management Principles. Viewed 14 August 2012,
  <http://faculty.mercer.edu/jackson_r/Ownership/chap02.pdf>.
  November/December 2008. 75(10), pp. 52-53.

Additional articles that may prompt discussions and further assist you in completing this
course will be saved on Regenesys Online under the relevant course. Please visit the
site regularly to access these additional sources.

5.2 RECOMMENDED BOOKS

The following book is highly recommended for this module:

  Cape Town: Oxford University Press.
Please ensure that you order your textbook well in advance to ensure that you do not delay the commencement of your studies for this module. It is highly recommended that you order and purchase all your textbooks at the beginning of the year, immediately after registration.

5.3 RECOMMENDED MULTIMEDIA


5.4 ADDITIONAL SOURCES TO CONSULT

As a higher education student, you are responsible for sourcing additional information that will assist you in completing this module successfully. Below is a list of sources that you can consult to obtain additional information on the topics to be discussed in this module:

**EBSCOhost:** This is an online database containing journal articles that are relevant to your modules. Please refer to the attached EBSCOhost manual to assist you to download required articles. Information on how to access EBSCOhost is provided to you in your Academic Handbook. You will receive access to the database once you register as a student.

**NetMBA:** This is one of several web addresses that provide a selection of “MBA” constructs and discussion. It is one of the better of these addresses. http://www.netmba.com/

**MindTools:** MindTools.com is a very useful source of ideas, constructs, management models, etc. with even more useful commentary and description. http://www.mindtools.com/
Brunel Open Learning Archive: A Brunel University support-site that provides an easily accessible library of ideas, concepts, constructs techniques, tools, models, etc. http://www.brunel.ac.uk/

ProvenModels: ProvenModels' Digital Model Book presents digitalised management models categorised in a clear, consistent and standardised information structure to improve the usability and reusability of management literature. Management models are important generalisations of business situations when applied in context and are powerful tools for solving business issues. http://www.provenmodels.com/

12manage.com: This is a website on which one can access numerous models as well as global comments on the models and principles. This could also serve as a place where you could voice your ideas and get feedback from all over the world. http://www.12manage.com/

Alliance Online: The Alliance for Non-profit Management’s general introduction to strategic planning is built around 15 questions that cover just about all aspects in brief. (Click on “Strategic Planning”) http://www.allianceonline.org/faqs.html

The Free Management Library: The Free Management Library can be used to improve your organisation, and for your own personal, professional and organisational development. This is by far the most comprehensive overview of all aspects of strategic planning covering all stages of the process. http://www.managementhelp.org/np_progs/sp_mod/str_plan.htm

The Charity Village: A series of twelve very short articles, by Ron Robinson, an independent Canadian consultant, appeared on Charity Village between November 2001 and October 2002. These articles are refreshing in that they do not advocate a “one best way” for all types of non-profit organisations. They discuss various way of approaching the strategic planning process. http://www.charityvillage.com/cv/research/rstrat.html

There are many more sites and articles available that can help you to successfully complete this module. You are encouraged to post the website addresses or URLs of any additional interesting sites that you come across on the Regenesys Learning Platform. In this way, you can assist other students to access the same wonderful information that you have discovered.

A word of caution – not all information available on the Internet is necessarily of a high academic standard. It is therefore recommended that you always compare information that you obtain with that contained in accredited sources such as articles that were published in accredited journals.
6. **LEARNING OUTCOMES**

Upon completing this course, participants should be able to:

- Evaluate strategic management terminology and concepts;
- Describe the organisational environment;
- Explain the basic economic systems in which organisations operate;
- Explore the different forms of enterprise or legal ownership that are available to the entrepreneur;
- Discuss the various management functions of planning, organising, leading and control;
- Explain the management process;
- Examine the different levels and kinds of management in the business organisation;
- Describe the various schools of thought in management;
- Explain corporate social responsibility in running an organisation;
- Demonstrate knowledge and understanding of the principles and concepts of emotional intelligence in respect of life and work relations;
- Evaluate change management models and processes and assess their applicability in organisations.
7. **CONTENT SCOPE AND LEARNING GUIDANCE**

A number of topics will be covered to assist you in successfully achieving the learning outcomes of this module. It is important to study each of these sections to ensure that you expand your knowledge in the subject and are able to complete the required assessments. The sections that will be dealt with include:

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Section 1</td>
<td>Introduction to General Management</td>
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<tr>
<td>Section 2</td>
<td>The Basic Elements of Planning</td>
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<td>Section 3</td>
<td>Organising</td>
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<td>Section 4</td>
<td>Leading</td>
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<td>Section 5</td>
<td>Controlling the Management Process</td>
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<tr>
<td>Section 6</td>
<td>Strategic and Change Management</td>
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</tbody>
</table>

A more detailed framework of what is required for each of these topics follows under each section heading. The content that follows will guide you towards the relevant chapter in your prescribed textbook as well as additional articles to be consulted. A number of questions to probe discussion and guide you towards comprehension and insight are also provided.

The timetable under each section heading provides guidance on the time to be spent to study each section. It is recommended that you follow the given timetable to ensure that you spend the appropriate amount of time on each section. Following the timetable will ensure that you have covered the required sections relevant to each assignment and have appropriate time to prepare for the examination.
7.1 **INTRODUCTION TO GENERAL MANAGEMENT**

<table>
<thead>
<tr>
<th>Timeframe:</th>
<th>16 hours</th>
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<tr>
<td>Learning outcomes:</td>
<td></td>
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</table>
- Describe the organisational environment;  
- Explain the basic economic systems in which organisations operate;  
- Explore the different forms of enterprise or legal ownership that are available to the entrepreneur;  
- Explain corporate social responsibility in running an organisation;  
- Examine the different levels and kinds of management in the business organisation;  
- Describe the various schools of thought in management. |
| Recommended reading: | Basic Management Principles (Finchman, n.d.) |
| Section overview: | This section will deal with general management principles. An organisation does not operate on an “island”; it is important to understand systems theory to be able to see the “bigger picture”. |

7.1.1 **An Overview of the Role of Management in Business**

Olsen and Haslett (2002: 452) explain that:

**Systemic thinking brings together in one discipline the concepts of connectedness and interdependencies, feedback and feedback processes and mental models. A systemic approach can aid in the understanding of the strategic management process as it focuses on a holistic view.**

General management principles are to implement the processes of planning, organising, leading and controlling. As these are only tasks, it is the responsibility of management to ensure that they are performed. The levels of management and the different types of managers will be discussed in this section. Managers must possess certain skills in order to manage. This section will conclude by exploring the evolution of management theory.

“What is management?” Good question! Theory tells us that “management” consists of four tasks/activities that are performed by managers:

- Planning;
- Organising;
- Leading;
- Controlling.
But who is supposed to manage? The answer is: **Everyone!**

“What is an organisation?” Below are some definitions to consider:

[An organisation consists] of people and resources and certain goals, which may differ from one organisation to the next.

(Source: Du Toit, Erasmus & Strydom, 2010:192)

A group of people that has a structure and strives to achieve a common set of goals.

(Source: Robbins, 2001:2)

Managed system designed and operated to achieve a specific set of objectives.

(Source: Bateman & Snell, 1999:19)

<table>
<thead>
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<th>Question</th>
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<tr>
<td>What is the role of management in business?</td>
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### 7.1.2 Systems Theory

Management theory has undergone a dramatic change in recent years with the reintroduction of Systems Theory. In simple terms, Systems Theory argues that an organisation as a system is influenced by and interrelated with many internal subsystems and external systems. Today’s organisations are not independent and isolated islands. Systems Theory attempts to take a comprehensive view of an organisation's process, a way to more completely understand an organisation.
A systems-theory-based management philosophy attempts to integrate many fields of scientific knowledge. These include behavioural science, physics, economics, social sciences and philosophy. An organisation is a dynamic and ever-changing system continuously influenced by its external environment (policies, technology, economy, competitors, globalisation) and its internal environment (changing organisational structure, culture, budgets, and systems such as HR management systems, information and communication, and financial management).

**Figure 1** demonstrates the complexity of these external and internal factors. The success of a future leader will depend on his/her awareness, knowledge, and ability to manage successfully a web of these interdependent forces, stakeholders and processes.

**Figure 1: Regenesys’ Integrated Management Model**

The module will draw on the Integrated Management Model developed by Regenesys Management (Pty) Ltd, which demonstrates how the external environment, levels of an organisation, team and the components of an individual are interrelated in a dynamic and systemic way.
The degree of *synergy* and *alignment* between organisational, team and individual goals and objectives, determines the success or failure of an organisation. It is imperative that each organisation ensures the team’s and individual’s goals and objectives are aligned with the organisation’s strategies (vision, mission, goals and objectives, etc.); *structure* (organogram, decision-making structure, etc.); *systems* (HR, finance, communication, administration, information, etc.); and *culture* (values, work ethic, principles, etc.). Hence, an effective work environment should be characterised by the organisational systems, strategies, structures and culture being aligned; together with people who operate synergistically. We must not forget the impact of each individual who operates within each organisation.

**Question**

In mind of the Regenesys Model explained above, explain corporate social responsibility in running an organisation

**The Organisational Environment**

The organisational environment (see Figure 2) consists of the environment external to the organisation as well as the internal functioning of the organisation.

**Figure 2: The Organisational Environment**

(Source: Du Toit *et al.*, 2010:106)
The manager has direct control over the micro-environment, can influence the market environment, but has little or no control over the macro-environment.

**The Micro-Environment**

The micro-environment includes the business functions (operations, logistics, finances, human resources, marketing and public relations) and the management tasks of planning, organising, leading and control. Operations are responsible for producing the product where the logistics focus on obtaining the products to be used in the manufacturing of the product to be sold. Also included under logistics is the responsibility to ensure the right quality, quantity, price and distributing the product. The financial function ensures that there is sufficient capital available in the short and long term. This includes debt collection and paying creditors. The human resource management function must ensure that the right people are employed to perform the tasks. The marketing function makes potential customers aware of the product and aims to persuade them to purchase it. Public relations ensure that the organisation maintains a positive image amongst its customers and society at large.

**The Market Environment**

This environment is better-described as the environment in which the organisation conducts its business. In this environment, inputs are obtained from suppliers (who sell raw materials or goods) and their intermediaries (they act as “middlemen” between the manufacturer and the consumer), goods and services are sold to customers (the patrons who buy the goods or services), and the organisation competes for market share with other organisations selling similar products or services. It has much to do with competition, opportunities and threats. It is important to note that, the more parties in the supply chain, the more expensive the end-product, as each party will add their “mark-up” to the product. **Figure 3** depicts Porter’s Five Forces Model. An organisation needs to know in which industry it is competing, what the structure of that industry is, what the major determinants of competition are, and which organisations are its competitors.
The Macro-Environment

This environment includes all the factors on the national and international levels which can impact on the organisation. Organisations have little or no control over this environment and must aim to “predict” what will happen in this environment and deal with the consequences thereof. The sub-environments include the natural, technological, social, political, economic, and international environments:

- The natural environment has to do with the availability of the natural resources required as well as factors like climate, natural disasters, etc.
- Within the technological environment, invention and innovation is pivotal. Any organisation that does not keep up with technological developments will not remain competitive.
- The social environment refers to the characteristics of the society in which the organisation operates; the society’s demographics (age, education, religion, culture, language, etc.)
- The political environment is the place where competition takes place as organisations vie for power within a society. This environment is also influenced by legislation.
• The international environment consists of the events that occur around the world in other countries that affect the organisation. Factors in the international environment that can influence an organisation are, for instance, policy changes in other countries, wars and terrorist attacks.
• “Economics is the science dedicated to the description and analysis of the production, distribution and consumption of goods and services and the role played by the availability of money or lack thereof”

(Source: Pearce & Robinson, 2003: 31)

The Economic Environment

The economic environment is one of the most important environments that a manager needs to be able to predict and with which s/he must deal. A healthy economy is one in which organisations are opening with an accompanying growth in job creation that will lead to more spending, a bigger demand, an increase in job creation to keep up with the demand, and so on. The average income of an individual determines the spending power of an organisation’s potential customers; thus, the higher their income, the more a person will be able to spend.

Interest rates affect an organisation because they affect how much money that organisation can borrow. Productivity is the ratio between the hours worked and the number of products produced. Labour costs and low productivity influence an organisations capability to compete nationally and internationally. Inflation is also a factor managers must take into consideration. Inflation is basically the decrease in the value of money in relation to the goods it can buy over time. When a business is operating in the international environment, exchange rates will have an influence over it. An exchange rate is the principle rate at which two currencies can be traded. Most of the international trade takes place in US$ (dollars).

Before continuing with a discussion on management, let us first look at the basic economic systems in which organisations operate.

7.1.3 The Economic Principle

The economic principle can be described as:

Obtaining the greatest possible benefit with the limited resources available.

(Source: Strydom, 2009: 5)
There are four basic resources available to be used by a business to deliver goods and services. **Goods** are those things we can feel and touch, such as cars, furniture, clothing, etc. **Services** are intangible; the things we cannot feel or touch. The four basic resources are described in Table 1.

### Table 1: Four Basic Resources

<table>
<thead>
<tr>
<th>Natural Resources</th>
<th>These are resources, like a rock containing gold or crude oil, that are regarded as valuable in their untouched form. It is important to take note that most natural resources are not replenishable (renewable).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Human resources are the people that perform specific duties within an organisation; the labour.</td>
</tr>
<tr>
<td>Capital</td>
<td>This is the money or assets that are used to deliver something to the consumer.</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Entrepreneurship is the process through which the production factors of natural resources, human resources and capital are combined so as to manufacture goods or offer a service in order to make a profit.</td>
</tr>
</tbody>
</table>

(Source: Strydom, 2009:7)

### The Economic Systems in which Business operates

The business environment is divided into four basic economic systems. On the one end of the spectrum is the **free market economy or capitalism**, which is based on the basic premise that each individual is free to choose his/her own economic activity, with minimal government intervention. On the other end of the spectrum there is the **command economy or communism**, which is based on the premise that the government should own almost all of the country’s resources, and government officials should be able to decide on how to use these. Between the free market economy and the command economy is the system of **socialism**, which states that individuals may own private property and choose their own form of economic activity, but the government owns many of the country’s resources.

South Africa is known as a **mixed economy** (free market economy and socialism) which simply implies that it is a blend of private enterprise, government ownership of resources and government planning of the economy.
The Need-Satisfying Institutions of the Free Market

Business Organisations

Business organisations decide which goods and services should be produced (as well as how and for whom) by meeting the wishes of the consumer. Consumer demand helps to determine what products and services need to be provided and for whom by mobilising resources; thus, a demand is created for production factors.

Business organisations pay salaries and wages to the community in exchange for the production factors, and consumers in turn pay for their products and services with that money.

(Source: Du Toit et al., 2010: 27)

In a free market economy, competition arises and this determines how the products are produced to allow a profit to be created. It is important to note at this point that a business organisation is not limited to a private enterprise, but can also include non-profit-seeking organisations as well as state-owned organisations.

Government Organisations

These public corporations are regarded as need-satisfying institutions through which the state creates and supplies products and services. They are also regarded as business organisations.
The difference is that they are not owned and controlled by a private entrepreneur; for example, Eskom, Transnet and SAA.

**Non-Profit-Seeking Organisations**

Examples of non-profit-seeking organisations are sports clubs, welfare organisations and associations of organised business. These types of organisations rely on financial support from those members of the community who require their services. They also function on the same basis as a business organisation, seeking a surplus of income over expenditure.

**Corporate Social Responsibility**

Corporate social responsibility can be defined as:

> The concept that organisations have an obligation to consider the interest of customers, employees, shareholders, communities and ecological environments in all aspects of their operation.

(Source: Strydom, 2009:11)

The King III report provides guidelines for responsible corporate management in South Africa.

**Legal Forms of a Business**

The following are different forms of legal businesses (smallbusinessnotes.com, 2012):

**Sole Proprietorship**

A sole proprietorship is a business in which one person represents the business legally and in any other aspect. This means that s/he is liable for the business. All her/his personal wealth is also linked to the business. For a sole proprietorship, you do not need founding documents.

**Partnership**

A partnership indicates that there are two or more people running a business. A partnership may not have more than 20 members (this does not apply to the professional practices of the business). Legally, you have to draw up a partnership agreement.
A partnership agreement should deal with the following (sedat.org, n.d.):

- Formation;
- Profit sharing agreements;
- Salaries;
- Banking agreements;
- Changes of partners;
- Liquidation;
- Responsibilities of partners.

However, partnership agreements can contain more than the afore-mentioned information, and the partners can decide what other information they would prefer to make part of the legal contract.

The partners in the partnership each make a contribution to the business in the form of money, labour, skills or property. They do not have the protection of a limited liability which means that they are still responsible for the debts of the business.

**Close Corporation (CC)**

A close corporation is a legal entity on its own. It may not exceed 10 members and their interest in the CC must add up to 100%. A company cannot become a member as ownership is limited to natural persons. A CC can continue to exist even if an individual member does not want to be a part of it anymore.

To form a CC, one only needs to reserve a name and registration. No audit is needed but the CC has to produce financial statements once a year. A professional accounting officer must review these statements.

Close corporations were previously governed by the Close Corporation Act No. 69 of 1984. However, the new Companies Act of 2008 has made amendments to the Close Corporation Act No. 69 of 1984.

Read the article below to understand how the new Companies Act of 2008 impacts close corporations.
New Companies Act effects on Close Corporations

Owners invested in a close corporation are certain to have heard of the new Companies Act of 2008, published in the Government Gazetteer in April 2009. This new act is set to come into effect by early 2010 and holds many changes for close corporations and larger organisations as well. Building on previous Acts, the new Companies Act may have a profound effect on the future of close corporations.

The new Companies Act will make amendments to Companies Act 61 of 1973 and Close Corporations Act 69 of 1984. For the first ten years the new act will run concurrently with the Close Corporations Act to gauge the effect of the Act on small and medium businesses. If the results are favourable, the Close Corporations Act will be repealed and the new Companies Act fully implemented.

From the moment the New Companies Act is implemented, new close corporations will not be allowed to register and existing companies can no longer convert to a close corporation. Existing close corporations will continue to exist indefinitely but may be forced to convert should the Close Corporation Act be repealed.

Provisions have been made under the new Act to assist existing close corporations with the conversion process. All that is required is an official notice of conversion, a certified copy of the special resolution to approve the conversion and a new Memorandum of Incorporation along with the necessary fee. Once this is supplied, CIPRO will cancel the registration of the closed corporation and give notice to the Gazetteer to change the name and status of the company as well as allowing the Registrar of Deeds to make the necessary changes.

The conversion will affect the legal status of the close corporations but the following provisions have been made under the new Companies Act.

- Members of the close corporation will be entitled to become shareholders in the converted company.
- All assets, liabilities, rights and obligations of the close corporation will continue to be vested in the new company.
- Any legal proceedings against or instituted by the close corporation may be continued.

These provisions are made to allow the company to continue its operations despite changes that need to be made to comply with the new Companies Act.

The new Companies Act was published in the Government Gazetteer in April 2009 but will only be implemented in early 2010. There is a general provision of about ten months to allow CIPRO to prepare for the changes and to give companies an opportunity to either convert or to comply with the dual standards now expected from the new Companies Act and the Close Corporations Act. It is important to reiterate that once the new Companies Act is implemented in 2010, no new close corporations can be registered.
The new Companies Act aims at simplifying incorporation and at providing more flexible regulation of corporations. Detractors argue that by repealing the Close Corporation Act, government is making it harder for small and medium business owners to survive as they are forced to compete in the public sphere where the market and shareholders determine the success of a company. Only time will tell what the long term effects of the new Companies Act will be on the corporate landscape of South Africa and the effect it will have on small and medium businesses.

(Source: Trademarks & Patents Online, n.d.)

**Company**

Companies have more administrative formalities and statutory requirements than a CC. A company has the following benefits:

- Its legal entity is separate from the stakeholders.
- Members have limited liability (the maximum amount a business owner can lose if the business is subject to debt).
- There is perpetual succession (members can leave the business and it will continue to exist).

According to Companies and Intellectual Property Registration Office (CIPRO), there are five types of companies with different legal obligations:

- Private Companies (called Proprietary Limited Companies or (Pty's);
- Public Companies (who offer their shares to the public);
- Section 21 Companies (companies operating not for profit);
- External Companies (companies that are set up in South Africa by foreigners);
- “Off-the-Shelf” Companies (ownership changes).

**Private Companies**

A private company can be defined as:

(Business/Commerce) a limited company that does not issue shares for public subscription and whose owners do not enjoy an unrestricted right to transfer their shareholdings.

(Source: thefreedictionary.com, 2012)

Private companies allow great flexibilities and are used for joint ventures. A private company may not have more than 50 shareholders, who are often referred to as the directors of the
company. They are created by the provisions of the Companies Act of 1973. They are granted Proprietary Limited or (Pty) Ltd status.

**Public Companies**

Public companies follow the same structure as private companies, but they offer their shares to be traded on the open market.

**Section 21 Companies**

According to the Department of Trade and Industry, South Africa, a Section 21 company is registered to provide services and do not intend to make, or by judged by the profit that is made. These companies are registered in terms of Section 21 of the Companies Act.

**External Companies**

External companies are businesses registered in other countries that wish to trade in South Africa.

**“Off-the-Shelf” Companies**

These companies have been registered and have completed all legal formalities except the appointment of directors so that the person who buys them can transform the new company at lower costs and with more ease.

### 7.1.4 Definition of Management

Management can be defined as a process that is followed by managers in order to ensure the achievement of a business's goals and objectives. It therefore implies that management is a process whereby human, financial, physical and information resources are used to reach the goals of the organisation.
Figure 5: General Management Tasks

Planning

This task determines where the organisation wants to go in the future; i.e. long-term and short-term goals. This includes the vision and/or mission (the way in which the goals are to be reached) and what resources are needed. This includes deciding what is to be done, how it is to be done, when it has to be done and by whom.

Organising

Once the goals and objectives have been established, the human, financial and physical resources of the organisation have to be allocated. This includes aligning the organisational structure to the long- and short-term plans. Organising involves all the preparations that must be done before the plan is implemented.

Leading

This task entails the directing of the human resources of the organisation and motivating them to achieve the goals. Influencing members of the organisation is crucial in making sure the overall goals are met.
Controlling

This task forces management to ensure that activities and performance conforms to the plans. It involves guiding the organisation in the right direction.

7.1.5 Different Levels of Management

Three basic levels of management are illustrated in Figure 6 that follows.

![Figure 6: Levels of Management](image)

(Source: Du Toit, Erasmus & Strydom, 2010: 184)

**Top Management**

Top management normally consists of a relatively small group of executives who control the organisation and who takes ultimate responsibility for executing the strategy. Top management normally focuses on long-term planning and they manage the strategic planning process. Top managers develop the goals, policies and strategies for the organisation.

**Middle Management**

Middle managers coordinate employee activities, including that of the first-line managers. They are responsible for carrying out top management’s directives by delegating authority and responsibility. This means they are responsible for certain functional areas of the business and are primarily accountable for executing the policies, plans and strategies determined by top management. They are responsible for medium- and long-term planning and organising, translating the general strategies from top management into specific goals and plans for first-
line managers to implement. Middle management is also concerned with managing group performance and allocating resources. This group of managers is required to develop its subordinates and ensure open lines of communication.

**First-Line Management**

First-line managers are responsible for the production of goods or services. They are technical experts who are able to teach and supervise employees in their day-to-day tasks. First-line managers, sometimes referred to as lower management, are responsible for smaller segments of the organisation. They supervise the finer details of organising.

It is important to state that, depending on the size of the organisation, there may be more or less levels of management.

There are also different types of managers in an organisation, namely: Functional management and general management. Functional management refers to specialised managers that are in charge of specific functions in the organisation, i.e. financial management, human resource management, marketing management, etc. These functional managers plan, organise, lead and control their units/ departments. General management is different from other specialised functions in that it integrates all the others.

Having pointed out the different management levels, it is important to note that, at each level, different managerial skills are required.

### 7.1.6 Managerial Skills

What are skills? Skills are abilities related to performance that are not necessarily inborn.

> Skills are specific abilities that result from knowledge, information, practice, and aptitude.

(Source: Bateman & Snell, 1999:23)

There are three key skills that are critical for sound management which is discussed in Table 2.
Table 2: Management Skills

<table>
<thead>
<tr>
<th>Conceptual Skills (and Decision-Making Skills)</th>
<th>Conceptual skills are those which involve analysing and diagnosing problems. It involves thinking rationally about how to solve issues. Making decisions is an example of a conceptual skill.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpersonal Communication Skills</td>
<td>Interpersonal communication skills relate to the ability to communicate with people at work. It involves the ability to talk to, understand, and motivate others.</td>
</tr>
<tr>
<td>Technical Skills</td>
<td>Technical skills are those which refer to specialized knowledge or expertise. Through formal education, these have been learned. All work requires this specialized expertise.</td>
</tr>
</tbody>
</table>

(Source: Adapted from Robbins, 4-5)

The skills required depend on the manager’s level, responsibilities and functions. Not only do managers have to possess specific skills, but they must also fulfil different roles irrespective of the managerial level or area they occupy.

Management is found at all levels and in all functions of an organisation, but the personal skills needed to do the job are different at each level. **Figure 7** indicates the different skills.

**Figure 7: The Skills needed at various Managerial Levels**

First-Line Management
- Conceptual 20%
- Interpersonal 30%
- Technical 50%

Middle Management
- Conceptual 25%
- Interpersonal 40%
- Technical 35%

Top Management
- Conceptual 45%
- Interpersonal 45%
- Technical 10%

(Source: J Cronje, Du Toit & Motlatla 2004:129)
7.1.7 The Role of Managers

Managers perform the four basic management tasks while playing a variety of managerial roles. A role is an organised set of behaviours. Henry Mintzberg identifies the 10 most common managerial roles (mindtools.com, 2012):

- Figurehead;
- Leader;
- Liaison;
- Monitor;
- Disseminator;
- Spokesperson;
- Entrepreneur;
- Disturbance Handler;
- Resource Allocator;
- Negotiator.

The roles of managers can broadly be placed in three overlapping groups namely interpersonal, information and decision-making roles integrated with the managerial roles indicated by Mintzberg. These are illustrated in Figure 8.

Figure 8: The Overlapping Roles of Managers

(Source: De J Cronje, Du Toit & Motlatla, 2004:130)
The Interpersonal Role

The interpersonal role consists of three groups of activities:

- Representing of his/ her unit/ department;
- Taking the lead in the appointing staff, training, motivating others, performance, etc.;
- Maintaining good relations with all stakeholders within the organisation.

The Information Role

This role requires managers to obtain information to help them make decisions. It focuses on synthesising information about change, opportunities or threats in order to analyse the environment. The manager is also required to act as the spokesperson within and for the organisation (i.e. internally and externally).

The Decision-Making Role

In order to make decisions, managers need to gather and analyse information. This requires them to “act” like entrepreneurs to seek out a new product or idea. Managers are required to deal with problems as they arise. Resources must be allocated by managers to ensure that the chosen strategy is properly employed. Managers also fulfil the role of negotiators as they constantly interact with individuals, other departments or organisations to negotiate goals, performance standards, etc.

7.1.8 The Development of Management Theory

The theories of management can be classified into two main schools of thought:

- The classical approaches (1910 – 1950);
- The contemporary approaches (1960 – present).

Figure 9 illustrates how management theory developed over the years.
In the early 1900s, the scientific school of thought proclaimed that, through the scientific application of observation, job analysis, job measurement, job redesign and financial incentives, the productivity of an organisation could be increased. This school of thought focussed mostly on lower management levels.

The management process school, which was popular in the mid-1910s, was more concerned with top management and the development and application of universal management principles that would drive any organisation to reach its goals. This school of thought originated from Henry Fayol and he identified six functions of a business, i.e. the technical function, the commercial function, the financial function, an accountancy function, a security function and the function of general management.

Almost three decades later, the behavioural school of thought was “borne” out of the failures of the first two schools of thought. The basic premise of this approach was that psychological and sociological factors are just as important as all other factors in the reaching of an organisation’s goals.

Next, in the 1940s, management came to be seen as a system of mathematical models and processes by the quantitative school. This school of thought should be regarded as an aid to management, and not as a separate school of thought of management theory.
By the 1950s, the systems approach had emerged, once again to compensate for the limitations of previous approaches to management theory. Systems theory was discussed earlier in this manual.

The contingency approach aims to overcome the defects of other theories in that it attempts to integrate the ideas of the different schools of thought. The application of management principles is subject to the circumstances at that stage.

In the 70s, proponents of the strategic approach strove to align the goals and objectives of the organisation with the trends in the business environment. Strategic management focuses on the threats and opportunities in the environment and, by evaluating an organisation’s strengths and weaknesses, it aims to overcome threats and exploit opportunities to build a distinctive competence.

In the late 80s and the 90s the total quality management (TQM) approach evolved. It centred on quality, i.e. better quality products at a higher rate of productivity.

Also in the 90s, the concept of re-engineering gained prominence. Re-engineering an organisation implies that organisations focus on their core business and outsource activities that do not apply to the core business. These approaches lead to the reduction in size of many organisations in the 1990s.

Diversity management is an important challenge that could shape management theory in the 21st century. It adopts an approach to management that embraces the differences in the workforce and capitalises on them. Diversity management incorporates the dynamics of teamwork and other aspects of management such as corporate governance, corporate social responsibility and knowledge management.

For more information concerning the principles of management, read the following slides:

Basic Management Principles (Finchman, n.d.: http://faculty.mercer.edu/jackson_r/Ownership/chap02.pdf)

<table>
<thead>
<tr>
<th>Recap Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is the role of management in business?</td>
</tr>
<tr>
<td>2. Discuss the principles of Systems Theory.</td>
</tr>
<tr>
<td>3. Describe the organisational environment.</td>
</tr>
<tr>
<td>4. Explain the basic economic systems in which an organisation operates.</td>
</tr>
<tr>
<td>5. Describe the various legal forms of business and each of their implications.</td>
</tr>
<tr>
<td>6. Discuss the evolution of management theory.</td>
</tr>
</tbody>
</table>
7.2 **THE BASIC ELEMENTS OF PLANNING**

<table>
<thead>
<tr>
<th>Timeframe:</th>
<th>16 hours</th>
</tr>
</thead>
</table>
| Learning outcomes: | • Discuss the various management functions of planning, organising, leading and control;  
|                  | • Evaluate strategic management terminology and concepts.                  |
| Multimedia:      | **Business Plan development process** [Video Clip] (NVS Business Solutions, 2011) |

In Section One, the management process was explained. Planning is the first step in the management process and involves activities that determine the mission and goals of an organisation. It further indicates how resources will be used to achieve these goals. Planning consists of three dimensions:

- The determination dimension;
- The decision-making dimension;
- The future dimension.

The goals of the organisation determine the type of organisation, the leadership required and the control to be exercised.

### 7.2.1 The Importance of Planning

Planning provides the organisation with its direction and it determines the actions that management must take. Planning is important because it provides direction, promotes coordination between the various departments and people within the organisation and forces managers to look to the future. Planning also ensures that the organisation stays in touch with technology and the latest trends; it ensures cohesion in the sense that it enables top management to see the organisation in a holistic way. Lastly, planning promotes stability in the organisation by encouraging pro-activeness.

### 7.2.2 The Planning Process

Planning can be seen as the identification and formulation of the goals and objectives of an organisation, followed by a choice of the strategy to achieve the goals and then the actual implementation of the chosen strategy. It is important to note that planning does not take place in isolation but is closely linked with organising, leading and control; it is a dynamic process.
Without planning, the next step in the management process cannot take place. Organising cannot take place if there is no plan to direct the allocation of resources. Effective leadership is not possible as there is no plan according to which people can be instructed and encouraged to carry out their tasks. Control relates to dealing with any deviations from the plan; if there is no plan, there is nothing to control.

### 7.2.3 Organisational Goals

Why is it so important to have goals in an organisation? Well, goals serve the following purposes:

- They provide a shared focus for the entire organisation.
- They affect other aspects of planning in the organisation.
- They motivate people.
- They provide a benchmark for performance measurement and control purposes.
The Formulation of Goals

Goals are based on the mission of the organisation, the environment in which the organisation operates, the values held by management and the experience of management.

Figure 11: Steps Leading to the Formulation of Goals

Vision
(Where do we want to be - The 'Dream')

Mission
(How are we going to get there)

Goals and objectives
(long and medium term)

Environmental Analysis
/Internal and External)

The values held by management and experience of management will influence the formulation of goals.

(Source: De J Cronje, Du Toit & Motlatla 2004:144)

Two of the most important aspects of planning are the vision and the mission statement. Below are some definitions to consider.

The basic purpose and values of the organisation, as well as its scope and operations. It is a statement of the organisation's reason to exist.

(Source: Bateman & Snell, 1999:131)

The mission is a statement that defines the purpose of the organisation in terms of the product or service it produces, the market it serves and the technology it applies in serving the market.

(Source: Du Toit, Erasmus & Strydom, 2010:185)
The vision statement, by contrast, provides a perspective on where the organisation is headed and what the organisation can become. According to de Bruyn (2010: 19), a vision should meet the following requirements:

- It should be idealistic.
- It should be philosophical.
- It should be future-orientated.
- It should not provide any detail.
- It should accommodate the aspirations and dreams of top management of the organisation.

The Different Organisational Goals

Organisations normally have two sets of goals: Organisational goals and personal goals. The organisational goals include the mission, the long-term strategic goals, and the tactical and operational goals. Personal goals are of no direct concern to management, but they have a huge influence on the reaching of organisational goals.

Figure 12: Different Organisational Goals at Different Management Levels

(Source: Du Toit, Erasmus & Strydom, 2010:184)
7.2.4 Environmental Analysis

Before deciding on a goal or strategy, it is important to analyse both the internal and external environment. One of the tools that can be used is called a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. Its main purpose is to isolate key issues and to facilitate a strategic approach. Strengths and Weaknesses deal with the internal environment and Opportunities and Threats deal with the external environment. Possible strengths and weaknesses include: Experience, resources, customer service, efficiency, leadership, competitive advantage and so on. Possible opportunities and threats can include: New products or services, increasing market saturation, locating a new source of revenue, business alliances, and legislation and so on. Figure 13 provides a SWOT analysis tool.

Figure 13: SWOT Analysis Tool

(Source: Berry, 2012)

Figure 14 provides an example of a completed SWOT analysis. This analysis was done to determine whether outsourcing to an external company in India would be viable.
Figure 14: SWOT Analysis Example

**Strengths**
- Low cost of production
- Availability of skilled person-power
- Strong process engineering and product engineering capabilities
- Growing domestic automotive market
- Manufacturing capabilities with international quality standards
- Higher operational efficiency

**Weaknesses**
- Low investments in R&D
- Limited knowledge of product liability and offshore warranty handling
- Lack of experience in systems integration
- Poor infrastructure for supply chain and exports

**Opportunities**
- Continuous pressure on global OEMs and Tier-1s to reduce cost and source components from low cost countries
- Frequent introduction of newer models by auto makers
- Global market opportunity provided by the auto industry
- Leverage on product engineering expertise to improve the auto components’ export worthiness
- Acquisitions in foreign markets

**Threats**
- Appreciation of Rupee
- Development of new technologies such as fuel cells or hydrogen-powered vehicles, which might have an affect on the components industry
- More OEMs entering the Indian market that might result in migration of talent from suppliers to OEMs
- Competition from other low-cost countries, China and Taiwan

(Source: Finntrack Ltd, 2011)
7.2.5 Setting Goals

Management must understand the importance of goals for the following reasons:

- Goals provide guidance and unanimity in the sense that they can inspire and motivate people, they provide the “direction” of the organisation and they are an effective means of evaluation and control.
- Goals must be measurable – SMART.
- The responsibility of reaching goals must be assigned to a specific individual.
- Goals should be set consistently so that one does not conflict with the other. Horizontal consistency refers to the compatibility of goals across various departments. Vertical consistency refers to departmental goals that must be compatible with those of subsections.
- Goal setting must be integrated with the remuneration system.
- Management must ensure that staff accept the goals and are committed to achieving them.

There are two approaches to setting goals, i.e. the hierarchical approach or the bottom-up approach (better known as management by objectives). The choice of approach largely depends on the size of the organisation, its structure, the culture and the leadership style of top management.

7.2.6 Developing Plans: The Choice of Alternatives

The second phase in the planning process involves developing plans that will lead to the achievement of the desired goals. Before developing plans, management must consider the following:

- The influence of external factors;
- The strong and weak points of the organisation;
- The cost associated with each alternative.

Types of Plan: The Levels and Timeframes of Planning

On each level of management, different kinds of plans must be developed. Three types of planning will be discussed, namely: Strategic planning, functional planning and short-term planning.
Strategic Planning

Strategic planning is the process of analysing the organisation's external and internal environments; developing a vision and mission; formulating overall goals; identifying general strategies to be pursued; and allocating resources to achieve the organisation's goals.

(Source: Thompson & Strickland, 1998:6)

Strategic planning, also referred to as long-term planning, has the following characteristics:

- Top management is responsible;
- It spans a timeframe of three to 10 years or more;
- It focuses on the entire organisation;
- It is future orientated;
- It is not concerned with detail – provides broad general guidelines;
- It is used to deploy resources and skills.
Since the 1950s, the business environment has been changing rapidly. Previous approaches like budgeting and management by objectives were of little use in this new unstable economy. Due to this instability, long-term planning came into being in an attempt to survive. Strategic planning was deployed to try and keep on top of changes in the business environment.

Various long-term strategies can be devised; for example:

- A concentration strategy (concentrating all that it has on what it does best to achieve the mission);
- Market development (existing and new markets are developed);
- Product development (development of new products for existing or new markets);
- Innovation (constantly changing and improving products);
- Horizontal integration (growth strategy in which a similar organisation is taken over and gives access to new markets);
- Vertical integration (when the organisation takes over its suppliers);
- Joint venture (two or more organisations take on a project that is too big for one organisation to handle and this strategy ensures a pooling of resources and skills);
- Diversification (an organisation takes over another organisation or sets up a new organisation that is currently not part of the existing organisation);
- Rationalisation (termination of unprofitable products, assets);
- Divestiture (selling of parts of the organisation);
- Liquidation (the final strategy and implies the discontinuation of the entire business).

How does an organisation decide on a strategy? There are various techniques that can be used; for example:

- PIMS (Profit Impact of Market Share);
- BCG portfolio matrix (Boston Consulting Group);
- GE matrix (General Electric);
- Many more.

**Functional Planning**

Functional planning refers to medium-term planning and is normally carried out by middle management. Refer to Table 3 for the key aspects for each functional management area.
Table 3: Key Aspect for Functional Management

<table>
<thead>
<tr>
<th>Functional – Management areas</th>
<th>Key aspects to be considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Product line, market position, distribution channels, market communication and prices</td>
</tr>
<tr>
<td>Finance</td>
<td>Policy on debtors, dividends, asset management and capital structure</td>
</tr>
<tr>
<td>Production and operations</td>
<td>Improvement of productivity, location problems and legislation</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Labour relations, labour turnover, training of human resources and equity considerations</td>
</tr>
<tr>
<td>Purchasing</td>
<td>Suppliers, policies on creditors and sources of raw materials</td>
</tr>
</tbody>
</table>

(Source: De J Cronje, Du Toit & Motlatla, 2004:126)

**Short-Term Planning**

This type of planning is normally done for a period of a year. It is the responsibility of first-line management based on the company’s functional and tactical goals. It is normally concerned with the day-to-day performance of tasks and allocation of resources. Budgeting is the main method used by management in planning the allocation of resources.

**Generic Strategies**

It is important to take note of the generic strategies as organisations must choose one of these. The generic strategies model is based on four basic business-level strategies that are applicable to any organisation. The four strategies include differentiation strategy, cost leadership strategy, focussed differentiation strategy and focussed cost leadership strategy.

**Differentiation Strategy**

This strategy involves competing by offering products or services that are perceived as unique by consumers; as, for example, in the motor vehicle industry. This strategy is only effective for as long as the product or service delivered remains unique – that means competitors cannot easily copy it.
**Figure 16: Porter’s Generic Strategies Model**

![Porter's Generic Strategies Model Diagram](image)

(Source: tutor2u, n.d.)

**Focussed Differentiation Strategy**

Focussed differentiation strategy can be described as:

This strategy involves competing in a specific niche by serving the unique needs of certain customers or a specific geographic market.

(Source: Miltenburg, J., 2005:21)

A niche is a specialised group of customers like heart surgeons, Porsche owners, etc. In short, organisations try to create a unique image for their products or services that caters to the specific demands of a specific niche.

**Cost Leadership Strategy**

This strategy involves providing goods or services at a cost as low as possible (possibly even lower than that of competitors). Low cost, however, does not mean low price. To keep costs low, there must be a constant concern for efficiency. This strategy depends on economies of scale – so to keep process low cost, large quantities of the product or service must be sold.
According to Hellriegel *et al.* (2008: 242), the requirements for implementing the cost leadership strategy include:

- using facilities or equipment that yield high economies of scale;
- constantly striving to reduce per-unit cost; and
- minimising labour-intensive personal services and sales forces; and avoiding customers whose demands would result in high personal selling or service cost.

**Focussed Cost Leadership Strategy**

The aim of this strategy is to compete in a specific customer or geographic market by providing a product or service at a cost as low as or lower than that of the competition.

**Implementation of the Selected Plan**

During planning, management must decide who is responsible for the activities to be carried out. Therefore, they need to pay attention to organising, leading and control. The interdependence of the four fundamental elements of management is once again highlighted. The implementation of the chosen plan involves the development of a framework for its execution, the leadership to drive the plan and lastly, how it will be controlled to ensure the goals are reached. In this section, planning as the starting point in the management process was discussed. During planning, management must decide on the “what” and the “how”. Plans can be strategic, tactical or operational. The development of an organisational structure is the second task of the management process that needs to be examined. For more information on the planning process, watch the clip below:

Business Plan development process [Video Clip] (NVS Business Solutions, 2011: http://www.youtube.com/watch?v=nlqnStX6B8s)

### Recap Questions

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1.</td>
<td>Describe planning as part of the management function.</td>
</tr>
<tr>
<td>2.</td>
<td>Why should planning take place first?</td>
</tr>
<tr>
<td>3.</td>
<td>Describe the planning process.</td>
</tr>
<tr>
<td>4.</td>
<td>What are the different organisational goals?</td>
</tr>
<tr>
<td>5.</td>
<td>Describe the differences between strategic, functional and operational planning.</td>
</tr>
<tr>
<td>6.</td>
<td>Discuss the generic strategies model with examples.</td>
</tr>
<tr>
<td>7.</td>
<td>Describe the possible strategies that can be used to accomplish different goals.</td>
</tr>
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</table>
7.3 **ORGANISING**

<table>
<thead>
<tr>
<th>Timeframe:</th>
<th>16 hours</th>
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</thead>
<tbody>
<tr>
<td>Learning outcome:</td>
<td>Discuss the various management functions of planning, organising, leading and control.</td>
</tr>
</tbody>
</table>

**Section overview:**
Once the plan has been decided upon, human and other resources must be combined in order to achieve the organisation's goals. The grouping of people into teams/departments to perform the activities is the next big step. Basically, they need to address which activities to carry out, which resources to deploy, and who will perform the various activities. Communication and coordination between people and departments are crucial. This section discusses the organising functions of management.

### 7.3.1 The Importance Organising

Organising can be defined as follows:

Organising means that management has to develop mechanisms in order to implement the strategy or plan.

(Source: Du Toit, Erasmus & Strydom, 2010:192)

An organisation's structure indicates the work to be done and the connections between the various tasks and departments. A structure indicates responsibilities and lines of authority and communication. Structures must be dynamic in the sense that they must change to suit the demands of the environment and the organisation. In this section the importance of organising will be highlighted as well as the fundamentals of organising. Factors that influence organising will also be discussed.

Why is organising so important? This is because organising:

- Ensures a detailed analysis of work to be done and resources to be used to reach the set goals – it provides a “picture” of duties, authority and responsibility procedures to be followed and what resources they can use;
- Breaks the total workload into more manageable pieces;
- Promotes the productive allocation and use of resources – related activities are grouped together to ensure experts in the specific field carry out given duties; and
- Results in a mechanism that coordinates all activities of the entire organisation.
7.3.2 The Fundamentals of Organising

According to Du Toit, Erasmus and Strydom (2010:194), the fundamentals of organising are:

- Designing jobs for employees;
- Grouping employees into teams/departments based on commonalities;
- Assigning authority;
- Establishing a command structure; and
- Establishing coordinating mechanisms.

Designing Jobs

Job design entails deciding on the responsibilities of an individual and compiling a job description that explains what this person must do and at each level of performance. Job designing is done to determine the level of specialisation needed in the overall task.

Specialisation is the way in which a task is broken up into smaller units to take advantage of specialised knowledge or skills to improve productivity.

(Source: Du Toit, Erasmus & Strydom, 2010:169)

Table 4 describes the benefits and limitations of specialisation.

**Table 4: The Benefits and Limitations of Specialisation**

<table>
<thead>
<tr>
<th>Benefits of specialisation</th>
<th>Limitations of specialisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers performing small and simple tasks become very proficient at each task</td>
<td>Workers who perform highly specialised jobs may become bored and dissatisfied, which may lead to absenteeism and lower quality of work.</td>
</tr>
<tr>
<td>The transfer time between tasks decreases. If employees perform several different tasks, sometime is lost as they stop doing a task and move to the next task</td>
<td>The anticipated benefits of specialisation do not always occur. For example, the time spent on moving work in process from worker to worker can be greater than the time needed for the same individual to change from job to job.</td>
</tr>
<tr>
<td>The more narrowly defined a job is, the easier it is to develop specialised equipment to assist with that job</td>
<td></td>
</tr>
<tr>
<td>When an employee who performs a highly specialised job is absent or resigns, the manager is able to train somebody new at relatively low cost.</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Du Toit, Erasmus & Strydom, 2010: 192)
A growing organisation must apply specialisation or the division of labour for the following reasons:

- Individual ability;
- Reduced transfer time;
- Specialised equipment;
- Reduced training costs.

Specialisation allows for an increase in productivity. However, the converse is also true. Workers who perform specialised jobs become bored and demotivated and productivity decreases. This is where managers should explore the possibilities of job enrichment, job enlargement and job rotation.

**Departmentalisation**

This entails the grouping of activities that belong together. The reason for departmentalisation is inherent in the advantages of specialisation. The various departments created now constitute the organisation structure. There are various basic forms of organisation; i.e. functional organisational structure, product departmentalisation, location departmentalisation, customer departmentalisation and a matrix organisational structure.

**Functional Organisational Structure**

This is the most basic type of structure. See Figure 17 below.

![Figure 17: Functional Departmentalisation](source: Du Toit, Erasmus & Strydom, 2010: 192)
Product Departmentalisation

Departments are designed so as to allow for the grouping of all activities related to a specific product or group of products. An advantage of this type of structure is that the specialised knowledge is used to optimal effect leading to decision being made quicker, and the performance of each unit can be measured more effectively.

A disadvantage of this structure is its tendency to entrench a “silo mentality” whereby the managers in the unit concentrate only on their specific product and often do not see the “bigger picture”. Another disadvantage is the increase in administrative costs.

Location Departmentalisation

If an organisation manufactures and sells their products in different geographical regions, this is the structure that will be used. The structure provides the area management with the autonomy necessary to facilitate decentralised decision-making.

Customer Departmentalisation

When a business concentrates on a specific segment of the market or group of consumers, it will make use of customer departmentalisation. For an illustration on customer departmentalisation see Figure 18. This type of structure implies that each department operates like a “small privately owned business” but it remains subject to the goals and strategies set by top management.

Figure 18: Customer Departmentalisation

(Source: Du Toit, Erasmus & Strydom, 2010: 192)
Matrix Organisational Structure

“The matrix organisation structure is important because no organisational structure, whether designed according to function, product, location or customer, will necessarily meet all the organisational needs of a particular business” Du Toit, Erasmus & Strydom, 2010: 198). See Figure 19 below. This structure has been created to incorporate the advantages of the other structures. This structure is suited to ad hoc and complex projects requiring specialised skills and knowledge. A disadvantage of this structure is the division of authority, thus one employee can have two managers.

Figure 19: The Matrix Organisational Structure

(Source: Du Toit, Erasmus & Strydom, 2010: 192)
7.3.3 Authority Relations

An organisation’s structure does not only assign tasks, but also responsibility and authority to each post within the structure.

Responsibility can be explained as a particular obligation or commitment on the part of managers to do their work according to instructions received. Authority, on the other hand, is the right to command or give orders – legitimate power. If you are in a position of authority, it also means that you have the right to take action to compel the performance of duties and to punish non-performance or negligence.

Top management assigns a certain amount of authority to middle managers and middle managers do the same with first-line managers. This is called delegation of authority. Responsibility and authority go hand-in-hand. There are also other forms of authority e.g. personal or knowledge.

- **Line authority**: This is the type of authority that is delegated downward through the line of command.
- **Staff authority**: This source of authority stems from specialised knowledge within a particular field. It is an indirect and supplementary authority.

**Delegation of Authority**

Delegation is the downward transfer of formal authority from superior to subordinate. It is important to note that the manager remains accountable. Delegation empowers employees to perform tasks and allows managers more time to manage more effectively.

There are six principles for improving delegation:

- Establish goals and standards;
- Define authority and responsibility;
- Involve subordinates;
- Require completed work;
- Provide training;
- Establish adequate controls.
The greatest psychological barrier to delegation is fear. Some other barriers to delegation include the following mentalities on the part of managers (Hellriegel et al., 2007: 364):

- “Employees lack experience, and I can do it better”;
- “My reputation is at stake”;
- “It takes more time to explain the job than to do it myself”;
- “A mistake by an employee could be costly”;
- “Employees are already too busy”;
- “I give up power and control when delegating jobs”;
- “Delegating is terrifying me, because employees’ will become better skilled and more experienced and will eventually steal my job”.

For effective delegation to take place, employees must be given some freedom to accomplish tasks. People will make mistakes, and should be given the chance to develop their own solution to problems and learn from their mistakes.

Below are a few guidelines that managers can use to overcome the barriers of delegation (Hellriegel et al., 2004b: 212):

- Treat delegation as a career-building tool that provides employees with needed experiences to prepare them for greater responsibility.
- Find the right person for the task and clarify the task.
- Allow your subordinates to participate and be prepared to consider their ideas.
- Determine the acceptable level of performance in a task and then delegate that task to someone who can achieve that level.
- Delegate strategically by measuring employees’ success against jointly set goals.
- Let employees establish their own plan of action.
- Make sure that you stay on top of things and hold employees accountable;
- Establish feedback controls.

### 7.3.4 Reporting Relationship

The establishment of reporting lines is a further fundamental element of organising. It is basically a question of who reports to whom. It is called the chain of command which ensures that everyone knows who is in charge of which activities. The span of management refers to the number of subordinates who report to a specific manager. The narrower or higher the structure, the smaller the number of subordinates who report to a single manager will be. The flatter the structure, the more subordinates report to a single manager.
7.3.5 Coordination

The breaking up of the total task into smaller pieces raises the problem of coordination. “The key to keeping each department focussed on the organisation’s goals is coordination of activities of the various departments” (Du Toit, Erasmus & Strydom, 2010: 203). Based on systems theory, the various groups or departments are interdependent and interrelated. Without coordination, the various units or departments will lose sight of the goals of the organisation. Coordination means the integration of goals and tasks at all management levels and also all departments and functions to enable to organisation to function as a whole.

7.3.6 The Informal Organisation

Apart from having a formal organisational structure, there is also an informal organisational structure. This entails those interpersonal relations within a business that are not defined by the formal organisational structure. Informal communication, the “grapevine”, comes from regular interaction between people. The “grapevine’ can either support the formal structure or it can be destructive. Management should try and encourage informal structure because:

- Informal communication takes place at a more rapid pace;
- It promotes teamwork within departments;
- The informal organisation supports the formal organisation.
7.3.7 Factors that influence Organising

Plans can only be successfully carried out if the organisational structure allows for it. There is no “best” organisational structure; each business must choose the structure that will best suit its needs.

So, which factors influence the decision about an organisational structure? Firstly, some experts believe the environment in which a business operates will influence the choice of structure. Others believe that the size and complexity of business, the competence of employees and the nature of the product and the market will influence structure. Organisational climate and culture also have an influence. Table 5 described the different environments in which a business operates.

Table 5: The environment in which a business operates

<table>
<thead>
<tr>
<th>Environment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable environment</td>
<td>In this type of environment, there is not much change or the environment is not subject to unexpected change. There is a regular demand for the product with only slight fluctuations. In this environment, a functional structure is suitable. Top management will mainly make decisions.</td>
</tr>
<tr>
<td>Turbulent environment</td>
<td>Change is the only constant in this environment. There are a constant influx of new products and technological innovations. One such environment is the pharmaceutical industry. In this type of environment, product departmentalisation is suitable.</td>
</tr>
<tr>
<td>Technologically dominated environment</td>
<td>When a particular technology forms the basis for a business’s product, this organisation operates in a technologically-dominated environment. This type of environment will require an adaptable organisational structure based on some form of departmentalisation.</td>
</tr>
</tbody>
</table>

The Relationship between Strategy and Structure

The strategy-structure fit is crucial for any organisation. The strategy provides direct input into the design of the structure.

The Size of the Business

The more staff and managers that need to be coordinated the greater the need for specialisation. This leads to the development of more departments and more levels of management.

Staff Employed by the Organisation

The competence and role of staff will also influence the structure. In top management, the structure influences both the strategy and the way things are done.
Organisational Culture

The last factor that plays a part in the organisational structure is the culture of the organisation. The beliefs or shared values of the people in the organisation influence what is done and not done in the organisation. The culture is reflected in things like office décor, dress regulations, and the general way in which things are done. The structure of an organisation with a formal culture will differ from that of an organisation with an informal culture.

Organising entails the development of a structure within which tasks are performed, resources allocated and responsibility and authority assigned.

Recap Questions

1. Describe organising as part of the management function.
2. Why is organising important?
3. Discuss the fundamentals of organising.
4. Describe the factors that influence organising.
7.4 LEADING

<table>
<thead>
<tr>
<th>Timeframe:</th>
<th>16 hours</th>
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</thead>
<tbody>
<tr>
<td><strong>Learning outcomes:</strong></td>
<td></td>
</tr>
<tr>
<td>- Discuss the various management functions of planning, organising, leading and control;</td>
<td></td>
</tr>
<tr>
<td>- Demonstrate knowledge and understanding of the principles and concepts of emotional intelligence in respect of life and work relations.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommended reading:</strong></td>
<td>The effect of an emotional intelligence development programme on accountants (Jonker, 2009)</td>
</tr>
<tr>
<td><strong>Multimedia:</strong></td>
<td>The extraordinary team [Video Clip] (Arnold, 2012)</td>
</tr>
<tr>
<td><strong>Section overview:</strong></td>
<td>As previously stated, an organisation may be described as consisting of people and resources and certain goals, which may differ from one organisation to the next. In this section, the task of leading will be explored as the next step in the management process.</td>
</tr>
<tr>
<td></td>
<td>Please note some of this information will also be covered in your Human Resource Management Module.</td>
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</tbody>
</table>

7.4.1 The Nature of Leadership

Leadership has been a topic of discussion for many years. To put it simply, leadership, from a management point of view, can be described as the process of influencing people to work willingly towards achieving the goals of the organisation. Managers must understand what motivates people's behaviour and create working environments to enable employees to perform their tasks. In contemporary organisations, managers must build their teams to perform a variety of tasks. What do managers do? They communicate the organisation's vision, mission, goals and strategies, plans, problems and expectations to the employees but they also listen to the employees' problems and aspirations. In this context, the importance of effective communication becomes abundantly clear. They are required to transform plans into reality by influencing employees.

Leadership and Management

Leadership is not the same as management. The functions of management include planning, organising, leading and control. Leadership is only one part of management. Leaders have the ability to influence people. Influencing is about the relationship between leaders and followers. The existing body of knowledge on leadership is used worldwide by organisations to improve the effectiveness of managers.
The Components of the Leading Function

The components are of the leading function are listed below:

- **Authority**: The right to give instructions and demand actions.
- **Power**: Ability to influence the behaviour of subordinates.
- **Responsibility**: Obligation to achieve goals by doing the allocated tasks.
- **Delegation**: Assigning responsibility and authority for achieving the goals.
- **Accountability**: The evaluation of how well individuals meet their responsibilities.

These are further discussed in Figure 21.

**Figure 21: The Power Continuum**

- **Coercive power**: Power to enforce compliance through fear (psychological, emotional, physical)
- **Reward power**: Based on the manager’s ability to influence employees with something of value to them. The power to give or withhold rewards.
- **Legitimate power**: The power an organisation grants to a particular position.
- **Referent power**: A manager’s personal power or charisma. They are obeyed simply because employees like and respect them.
- **Expert power**: Power that a manager’s expertise, knowledge and professional ability give him or her.

(Adapted from: CMP Resolutions, 2012)

**Authority**

Managers need authority to ensure that employees work together to reach the set goals. It revolves around the right to decide who does what, to demand the completion of tasks and to discipline those not complying.
Final authority lies with the owners or shareholders of an organisation who then delegate authority down the line of command. Authority and leadership are closely related.

**Power**

There are different types of power. Some managers are also leaders who can influence employees and can then exercise authority fully. Leaders have two types of power: position power and personal power. Managers have personal power when subordinates bestow it upon them.

Managers, who possess all five types of power, are regarded as strong leaders. Effective managers use their power in such a way as to maintain a healthy balance between their own power and that of employees.

### 7.4.2 Leadership Theories

The major theories that will be dealt with in this section are: Trait theory, behavioural theory and contingency theory.

First to emerge was trait theory, which was based on the identification and analysis of the traits of good leaders. Research has been fairly inconclusive as traits vary from one leader to the next. This then lead to the behavioural theory that was based on how leaders behave. They tried to identify what good leaders do with regard to delegation, communication and motivating employees. Three basic styles were identified namely autocratic, democratic and laissez-faire. The democratic leadership style was found to be the most effective.

Researchers from Ohio State University identified two leadership styles, namely: Initiating structure and consideration. Researchers at the University of Michigan distinguished between production-orientated leaders and employee-orientated leaders. Blake and Mouton developed the managerial grid where “concern for people” and “concern for production” is measured on a scale of one to nine.

The contingency or situational leadership approach states that leadership success is more complex. The leadership style best suited to a specific situation is the basis of the contingency theory. Du Toit, Erasmus and Strydom (2010:191) reveal that “Fiedler’s contingency theory proposes that effective group performance depends on the proper match between a leader’s style on interaction with employees, and the degree to which the situation gives control and influence to the leader”. Fiedler states that a person’s leadership style is fixed, which means that if the person is very task orientated and the situation requires someone that is people orientated, the organisation must either change the situation or move that person.
The central tenet of Robert House's path-goal model is that leaders must provide the necessary direction and support to ensure that employees’ goals are in line with the organisation's goals and objectives.

House’s model identifies four styles:

- Directive style;
- Supportive style;
- Participative style;
- Achievement-orientated style.

Another model to consider is Hersey and Blanchard’s situational leadership model, which states that the work maturity of employees determines the best leadership style where the manager will use one of four leadership styles (telling, selling, participating, and delegating).

Hersey and Hersey have designed a useful grid to assist you in determining your leadership style.

**Contemporary Issues in leadership**

In today’s business world, trust is becoming crucial to effective leadership. Trust has five dimensions:

- Integrity;
- Competence;
- Consistency;
- Loyalty;
- Openness.

Leaders at all management levels must be able to communicate the vision of the organisation to all employees. Visionary leaders, charismatic leaders, and transformation leaders will be discussed next.

**Charismatic Leadership**

This type of leader possesses traits like self-confidence, vision, the ability to articulate the vision, strong convictions, and unconventional behaviour and is sensitive to the environment. This type of leadership style is best suited to situations in which the employees’ tasks have an ideological component.
Visionary Leadership

This type of leader has the ability to create and articulate a realistic, credible and attractive vision for the future. Types of skills for visionary leaders include the following: The ability to explain the vision to others; the ability to express the vision through behaviour; and the ability to extend the vision to different leadership contexts.

Transactional and Transformational Leadership

This type of style appeals to the employees’ self-interest:

Transactional leadership is viewed as an exchange of rewards for employee compliance’ compliance.

(Source: Du Toit, Erasmus & Strydom, 2010: 210)

Transformational leadership has the effect of followers coming to trust, admire and respect the leader. Research has indicated that transformational leadership promotes greater organisational performance.

7.4.3 Motivation

To manage employees effectively, managers should understand what motivates the behaviour of people.

Motivation is an inner desire to satisfy an unsatisfied need’ need.

(Source: Du Toit, Erasmus & Strydom, 2010: 218).

This means that managers must create a working environment in which employees are motivated to achieve the organisation’s goals. The motivation process illustrated in Figure 22 works in a certain sequence and starts with an unsatisfied need.
Satisfaction is normally short lived as people have many needs and, once one need is satisfied, another one will surface. Managers must understand what motivates the behaviour of employees so that they can influence performance. Performance is determined by motivation, ability and the opportunity to perform.

7.4.4 Groups and Teams in Organisation

Managers must lead individuals but also groups or teams. All teams are groups but not all groups are teams. What is a group? A group can be described as two or more individuals who interact on a regular basis and who work for a common purpose. Changing groups into teams is a process. People join groups for different reasons for instance for prestige, to satisfy a social need, etc. The notion of groups and teams is unpacked in greater detail in the Human Resource Management Module. Therefor in this section you are required to consult the clip below.

The extraordinary team [Video Clip] (Arnold, 2012: http://www.youtube.com/watch?v=E4AX4vaQL5w)
Effective leadership depends on constant communication between managers and their employees. This includes communication with internal and external stakeholders. The communication process is illustrated in Figure 23.

Figure 23: The SMCR Communication Model

The sender is the source of the message. For communication to be effective, the receiver should receive the message in accordance with the sender’s intention. All obstacles to effective communication should be removed. Obstacles include:

- Language differences;
- Perceptions;
- Obscurity;
- Doubts about the source; and
- Ambiguities.

Non-verbal communication is also important and managers must be aware of its impact on verbal communication. Communication is examined more extensively in the Human Resource Management Module.
7.4.6 Emotional and Spiritual Intelligence in Leading

Why study Emotional and Spiritual Intelligence? In this life, the only thing that you can control is yourself. As you face the challenges, difficulties and achievements of life, meeting and working with a variety of people – who may be different to you and difficult to get on with – the only tool you have to function in any situation is yourself. That is why it is so important to develop a deep understanding of who you are (spiritual intelligence) and how and why you feel and behave the way you do (emotional intelligence).

Once you are aware of these things, you will find it much easier to understand other people and regulate your own behaviour in order to adapt to their personalities and behavioural styles and keep situations positive and constructive by managing your relationships, communication and conflict style. Once you are equipped with emotional and spiritual intelligence, you will be able to use your trusted tool – yourself – to change the outcome of any situation and achieve success.

Below is a model of the basic functions of awareness, knowledge and skills. It is based on the work of Boyatzis and van Oosten (2002) on clusters of emotional intelligence. In the model, you can see how self-awareness assists you in managing your own behaviour as well as understanding and dealing with other people and the greater “soft” structure of your environment. Hand-in-hand, social awareness and self-management then assist you in managing relationships.

Figure 24: Basic Functions of Awareness, Knowledge and Skills for EQ

![Diagram of EQ functions]

(Source: Bradberry & Su, 2012)
Defining the Concepts

The first step in the path towards self-awareness is knowledge of the different intelligences that humans can use; i.e. all three types are essential for competent functioning on a personal, social, and professional level. These are discussed in Table 6.

Table 6: Different intelligences

<table>
<thead>
<tr>
<th>Intelligence</th>
<th>Function</th>
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<tbody>
<tr>
<td>IQ: Rational Intelligence</td>
<td>What I think</td>
</tr>
<tr>
<td>EQ: Emotional Intelligence</td>
<td>What I feel</td>
</tr>
<tr>
<td>SQ: Spiritual Intelligence</td>
<td>What I am</td>
</tr>
</tbody>
</table>

(Source: Zohar & Marshall, 2000:3)

Rational intelligence (IQ) is the intelligence with which we think. Tests exist that can be used to measure a person’s IQ and it IS generally assumed that a person’s IQ cannot be changed or enhanced.

Emotional intelligence (EQ) is our ability to understand and feel for other people, our ability to read other people’s emotions or to read the social situations we are in, and to behave or respond appropriately. EQ is the intelligence with which we feel. In this course we will specifically focus on the role of EQ in leadership and on how we can improve our EQ and thus our leadership skills.

Spiritual intelligence (SQ) adds the dimension of our shared meanings and values and ultimate purposes. It addresses those concerns we have about what it means to be human and the ultimate meaning and purpose of human life.

All three kinds of intelligence must be developed for effective leadership. As a leader, you must be able to rationalise, feel and reflect on the everyday challenges you face.

A leader is a person who rules, guides or inspires others and leadership is the position or function of such a person.

(Source: Collinsenglishdictionary, 2012)

The harmonious combination of the three types of intelligence enables us to function effectively as individuals, in social contexts and in our professional capacities – especially as leaders.
For more information on Emotional Intelligence, read the article below.

The effect of an emotional intelligence development programme on accountants (Jonker, 2009)

Recap Questions

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1.</td>
<td>Discuss leading as part of the management function.</td>
</tr>
<tr>
<td>2.</td>
<td>What is the difference between leadership and management?</td>
</tr>
<tr>
<td>3.</td>
<td>Describe the components of leadership.</td>
</tr>
<tr>
<td>4.</td>
<td>Discuss the various leadership theories.</td>
</tr>
<tr>
<td>5.</td>
<td>Why is motivation important?</td>
</tr>
<tr>
<td>6.</td>
<td>Discuss what motivates employees’ behaviour.</td>
</tr>
<tr>
<td>7.</td>
<td>What is the difference between groups and teams?</td>
</tr>
<tr>
<td>8.</td>
<td>Describe the communication process.</td>
</tr>
<tr>
<td>9.</td>
<td>Explain the roles of emotional and spiritual intelligence in leading.</td>
</tr>
</tbody>
</table>
7.5 CONTROLLING THE MANAGEMENT PROCESS

Timeframe: 16 hours

Learning outcomes:
- Explain the management process;
- Discuss the various management functions of planning, organising, leading and control.

Recommended reading:
Secrets of Success: learning from others’ lessons from China (Futter, 2008)

Section overview:
Control is used to ensure that the organisation is progressing towards reaching the set goals. It also gives feedback to and influences the first task in the management process: planning.

Control involves all managers at all levels of management. Control can be seen as the measurement between what has been planned and what has been achieved. In this section, the control process will be examined and the section will focus on the areas of control. An effective control system exhibits certain characteristics and these will be discussed.

7.5.1 The Importance of Control

Why is a control process necessary? The answer is simple. It is necessary because:

- Of the nature of the management process itself and in particular, the task of planning;
- Of the growing nature of the business – as an organisation grows, more people are employed, new products developed, etc.;
- Managers and subordinates are capable of making poor decisions and commit errors;
- The delegation of tasks to subordinates does not mean that the job of management is now completed;
- Control enables management to cope with change and uncertainty as and when it arises;
- Competition is an important factor in any organisation and the organisation must remain competitive;
- Control is applied to ensure that the organisation’s resources that are allocated facilitate the achievement of the set goals; and
- Control usually leads to better quality.
7.5.2 The Control Process

The control process consists of four steps. The steps include: Setting standards against which actual performance will be measured, measuring the actual performance, evaluating any deviations and taking corrective actions. The control process is illustrated in Figure 25.

Figure 25: The Control Process

Step 1
Setting the performance standard

Step 2
Measuring the actual performance

Step 3
Evaluating deviations (to establish the gap)

Step 4
Taking corrective action

(Source: Du Toit, Erasmus & Strydom, 2010:230)
Step 1 – Establish Standards

Control and planning are closely related. This means that the control system should be a mirror image of planning as the plans indicate the goals and setting of standards or norms necessary for control. A performance standard is a planned target against which actual performance will be compared. Performance standards should be relevant, realistic, attainable and measurable. Standards can include profit standards, market share standards, productivity standards and staff development standards. Performance standards serve two purposes: They enable management to distinguish between acceptable and unacceptable performance and they also enable management to monitor strategies and goals.

Step 2 – Measure Actual Performance

To measure actual performance, activities must be quantifiable and the information and reports collected must be absolutely reliable. It is important to set specific milestones and observation and measurement must occur at these strategic points: “Important considerations in the measurement and reporting of activities are what information and how much should be fed back, and to whom” (Du Toit, Erasmus & Strydom, 2010: 231).

Control by exception means that only when there are major discrepancies between planned and actual performance must it be reported to top management. The time gap between performance and measurement must be kept to a minimum to allow for timely action to be taken.

Step 3 – Evaluate Deviations

The gap in the performance standard and the actual performance must be measured in this step. It is important to measure whether a standard was met or exceeded and then to determine why, thus exploring the nature and scope of the deviation. Measuring performance allows for determining whether the performance standard and the actual performance have been objectively set and measured as well as whether the deviation is large enough to warrant another investigation.

It is good practice to set upper and lower limits for each deviation so that a deviation is investigated when it exceeds the limits. Reasons and activities that lead to the deviation must be explored to enable corrective action.
Step 4 – Take Corrective Action

If necessary, i.e. if there is a deviation from the set standard and the actual performance, corrective action is taken at this point. If there is a deviation, management has a choice of three options:

- The improvement of actual performance to ensure that the performance standard is reached;
- The improvement of strategies that will lead to the accomplishment of the performance standard;
- The lowering or raising of performance standards to make them more realistic for the current situation.

It is important to note that there are limits to the time and money spent on control.

7.5.3 The Focus of Control

The question must now be asked: “what must be controlled?” Control of activities should occur at strategic points, thus at areas responsible for the effectiveness of the organisation. When a control system is being designed, the following should be taken into consideration: the nature of the organisation, the activities, the size of the organisation and the structure.

Areas of control are defined in terms of the basic types of resources used:

- Physical resources – such as inventory control, quality control, etc.;
- Financial resources – most control measures or techniques are quantified in financial terms;
- Information resources – such as accurate market forecasting, environmental scanning, etc.;
- Human resources – selection, placement, training and development, performance appraisals, etc.

The resources needed to be controlled are illustrated in Figure 26.
Physical Resources

Physical resources can be defined as the tangible assets – like building, vehicles, machinery, equipment, office furniture, etc. – of the organisation. These types of resources normally appear on an asset registry. Control procedures normally involve inspections, stocktaking and so on. Control procedures for raw material and finished products are: Inventory control and quality control.

“Inventory refers to the reserves of resources held in readiness to produce products and services as well as to the end products that are kept in stock to satisfy consumer’s and customers’ needs” (Du Toit, Erasmus & Strydom, 2010: 282). There are different types of inventories, i.e. raw materials, work-in-process, finished goods and in-transit. The main reason organisations keep inventories is the cost of inventory and the need to control that cost. These costs include the cost to finance an inventory, the price of money (interest), storage and insurance costs and risk. There are three control systems relevant here:

- The concept of economic ordering quantity (EOQ);
- The materials requirements planning (MRP);
- The just-in-time system (JIT) (a refinement of the MRP system).
Total Quality Management (TQM) refers to the management of quality. TQM is the responsibility of everyone in the organisation.

Quality control refers to the activities that management performs to ensure a level of quality that will satisfy the consumer, on the one hand, and have certain benefits for the organisation, on the other hand.

(Source: Du Toit, Erasmus & Strydom, 2010:284)

Quality control usually comprises the following steps:

1. Defining quality goals and standards;
2. Measuring quality (benchmarking, statistical control methods, variation measurement);
3. Correcting deviations and solving quality problems in an effort to keep the cost of quality as low as possible.

Financial Resources

Financial resources are at the heart of any organisation and must be controlled. Financial control deals with resources as they “flow” into and out of the organisation, as well as resources that are “held” by the organisation. Revenues must be adequate to cover expenses. There are various control measures like financial management principles, budgetary control and financial analysis.

Financial resources are allocated in the organisation by means of a budget: A budget can be defined as:

A budget is a formal plan, expressed in financial terms, which indicates how resources are to be allocated to different activities, departments or sub-departments.

(Source: Du Toit, Erasmus & Strydom, 2010: 286)

Budgets can be used to benchmark performance and make comparisons between departments. A budget contributes to the control process as follows:

- It supports management in controlling resources, departments and projects;
- It provides guidelines on the application of resources;
- It sets standards that are vital to the control process;
- It involves the evaluation of resource allocation.
The manner in which budgets are developed nowadays involves a bottom-up approach which requires participation and input from all managers. A budget allows for effective control by means of assigning a value to actions and operations. It also facilitates coordination between units. A drawback of a budget is that it may sometimes limit flexibility.

**Information Resources**

Accurate and timely information is crucial in monitoring how well the set goals are achieved, and to ensure that everything is going according to plan. If not, timely information allows for adjustments to be made where necessary.

**Human Resources**

Performance measurement is used to control the organisation's human resources. It is necessary to develop performance standards to measure actual performance against them. Another useful instrument is specific ration analysis; i.e. labour turnover, absenteeism and the composition of the labour force.

Informal control systems refer to group behaviour that is based on the norms laid down by the group members.

**7.5.4 Characteristics of an Effective Control System**

Du Toit, Erasmus and Strydom (2010: 239) provide the characteristics of a control system in Table 7.

<table>
<thead>
<tr>
<th>Table 7: Characteristics of a Control System</th>
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<tbody>
<tr>
<td><strong>Integration</strong></td>
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<tr>
<td><strong>Flexibility</strong></td>
</tr>
<tr>
<td><strong>Accuracy</strong></td>
</tr>
<tr>
<td><strong>Timeliness</strong></td>
</tr>
<tr>
<td><strong>Unnecessary complexity</strong></td>
</tr>
</tbody>
</table>
7.5.5 Types of Control

There are three general types of control, namely: Preventative control, concurrent control and post-control.

Preventive Control

Preventive controls are defined below:

Preventive controls are mechanisms intended to reduce errors proactively thereby minimising the need for corrective action.

(Source: Hellriegel et al., 2008:322)

Examples include rules and regulations, recruitment and selection procedures, training and development programmes, etc. Preventive controls focus on the input factors.

Concurrent Control

This type of control is also referred to as steering control and monitors activities as they are taking place. It aims to address problems while they are developing and is extremely effective in situations where time is of the essence. We can say that concurrent control is a continuous control measure that involves standards being used to measure performance as the activity is taking place.

Post-Control

Post-control is a mechanism intended to reduce or eliminate unwanted behaviours or results in order to meet the organisation’s regulations and standards.

(Source: Hellriegel et al., 2004a: 404)

The aim of this type of control is to rectify a problem that has occurred to ensure that it will not happen again. The control process narrows the gap between planned performance and actual performance by setting performance standards. Control systems are supposed to be integrated and flexible and allow for accuracy and timeliness.
This section explored the various types of control that can be used as well as a few characteristics of control systems. The control process was discussed as well as what the focus of control should be.

<table>
<thead>
<tr>
<th>Recap Questions</th>
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<tbody>
<tr>
<td>1. Discuss control as part of the management function.</td>
</tr>
<tr>
<td>2. Describe the functioning of a control process.</td>
</tr>
<tr>
<td>3. Explain the areas that should form part of the control process in an organisation.</td>
</tr>
<tr>
<td>4. Discuss the characteristics of an effective control system.</td>
</tr>
<tr>
<td>5. How does the control process provide feedback?</td>
</tr>
</tbody>
</table>
7.6 **STRATEGIC AND CHANGE MANAGEMENT**

<table>
<thead>
<tr>
<th>Timeframe:</th>
<th>16 hours</th>
</tr>
</thead>
</table>
| Learning outcomes: | • Evaluate strategic management terminology and concepts;  
• Evaluate change management models and processes and assess their applicability in organisations |

**Section overview:**

Strategic planning has, as its objective, the long-term survival of the organisation in a volatile environment. To survive in the long-term, management must focus on the future and choose strategies that will enable it to prosper.

All managers, at any level, must possess a sound knowledge of strategic planning. Strategic management often requires change, which means that some change management concepts will also be discussed in this section.

### 7.6.1 Strategic Planning: What is Encompasses

Smit *et al.* (2011: 84) describe strategic planning as follows:

> Strategic planning can be defined as the process of proactively aligning the organisation's resources (internal environment) with threats and opportunities caused in the external environment.

Strategic planning has a future focus. According to Smit *et al.* (2011: 85), the following are unique characteristics of strategic planning:

- Strategic planning is an on-going activity (a process).
- It requires well-developed conceptual skills and is performed mainly by top management.
- It focuses on the organisation as a whole.
- It is future oriented.
- It is concerned with the organisation's vision, mission, long-term goals and strategies.
- It aims at integrating all management functions.
- It focuses on opportunities that may be exploited, or threats that may be dealt with, through the application of the organisation's resources.
Figure 27 illustrates the strategic management process.

![Figure 27: The Strategic Management Process](image)

(Adapted from: Du Toit, 2010:184)

A business strategy determines how best to compete in a particular industry or market; to ensure that corporate goals are met. Functional strategies, business strategies and corporate strategies must all be aligned.

### 7.6.2 The Strategic Planning Process

The strategic planning process starts with developing a vision statement. It is important to note that in order to formulate this vision, input must be derived from the internal and external environment. Once the “dream for the future” has been established, the mission is developed that will entail the “how will we make the dream a reality”. Long-term strategic goals will be developed and that will inform the choice of strategy to use to achieve these goals.
The Vision

The vision must be a statement that will be able to lead the organisation to success in the future and it needs to be inspiring to both the internal and external stakeholders. Remember, a vision is the “dream”, where the organisation would like to be in the future. A vision statement serves as an anchor for decision making; it is the end and not the means of getting to the end.

The way a strategy is developed has an impact on the way it is implemented. When planning does not take into account the implications of aligning people with strategy, the effort is doomed to failure. A vision statement is only effective if it is largely shared, i.e. if there is buy-in from multiple disciplines.

According to Smit et al. (2011: 88), a clear vision is important for the following reasons:

- It portrays the dream for the future.
- It promotes change; it is a roadmap.
- It provides the basis for the strategic plan.
- It enhances a wide range of performance measures.
- It helps to keep decision making in context as it provides focus and direction.
- It motivates individuals and facilitates the recruitment of talent.
- If the vision is effectively communicated, there are significantly higher levels of job satisfaction, commitment, loyalty, pride etc.

The Mission Statement

The mission statement is seen as the vehicle to reach the end destination, the vision. Formulation of the mission statement is guided by the vision. When formulating the mission statement, management aligns the organisation to the vision in terms of its products, market and technology by asking the following questions:

- What is our business?
- Who is our client?
- How will we provide this product or service?

Smit et al. (2011: 89) state that, apart from addressing the above components (product/ service, market and technology), a mission statement should also address the following:

- Concerns for survival/ growth/ profit;
- Philosophy (values, ethics, and beliefs of the organisation)
- Public image (social responsibility)
- Employees and all other stakeholders;
- Distinctive competence (how is the organisation different from or better than its competitors?)
To effectively use a mission statement, it is suggested that it informs the key performance areas for the whole organisation. It is however important that all levels of management are involved in the formulation of the mission statement. The key performance areas are then cascaded down to the performance appraisal of each individual in the organisation.

The next step in the strategic planning process is assessing the capabilities (internal analysis) and the opportunities and threats (external analysis).

**Strategic Goals**

Strategic goals are defined as:

Guidelines that explain what you want to achieve in your community. They are usually long-term and represent global visions.

(Source: Michigan.gov, n.d.)

From the definition above goals are what the organisation wants to achieve; these goals are usually long term and set out the roadmap to the organisation’s success.

Below are two of Coca Cola’s strategic goals to illustrate how global companies define their goals:

- We aim to make Coca Cola appear healthier and lower risk.
- We set as a goal for the world to know why Coke is better than Pepsi and thus strive to put this in the minds of society so they can purchase our product more often.

(Source: coca-cola/remodel.com, n.d.)

**Strategic Objectives**

Strategic objectives are:

Unlike goals, objectives are specific, measurable, and have a defined completion date. They are more specific and outline the ‘who, what, when, where, and how’ of reaching the goals.

(Michigan.gov, n.d.)

Strategic objectives in an organisation are more short term and from the definition above more specific. Strategic objectives should be compiled using the SMART principles. These are discussed in Figure 28 and Table 8 below.
Table 8: SMART Goals

<table>
<thead>
<tr>
<th>Specific</th>
<th>Is the objective clear and well defined?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Is it clear?</td>
</tr>
<tr>
<td></td>
<td>Can everyone understand it?</td>
</tr>
<tr>
<td>Measurable</td>
<td>How will the organisation know when the objective has been reached?</td>
</tr>
<tr>
<td></td>
<td>What evidence is needed to confirm that it has been reached?</td>
</tr>
<tr>
<td>Achievable</td>
<td>Is it within the organisations capabilities?</td>
</tr>
<tr>
<td></td>
<td>Are there sufficient resources available?</td>
</tr>
<tr>
<td>Realistic</td>
<td>Is it possible to reach the objective?</td>
</tr>
<tr>
<td></td>
<td>How sensible is the objective in the current business context?</td>
</tr>
<tr>
<td>Time bound</td>
<td>Is there a deadline?</td>
</tr>
<tr>
<td></td>
<td>Are there review dates?</td>
</tr>
</tbody>
</table>

(Source: Haughey, 2012)

7.6.3 Change Management Models and Processes

Change is a process and at the heart of change lays people who normally resist change. The macro and market forces are responsible for the constant change that will impact an organisation. Unfortunately, the pace of change in the organisation must keep up with change in the environment or else the organisation is destined for problems.

South African organisations face changes such as technological breakthroughs, pressure from environmentalists for more environmentally friendly production methods, increasing cultural diversity, international competition, mergers and takeovers, a new work ethic and so on.

(Source: Smit et al., 2011: 214)
Change does not only emanate from external influences, but also from internal influences such as a change in the mission, or a revision of the current strategies. Corporate governance in South Africa may impact directly on the reporting system within organisations. Change can be addressed in two ways, through reactive change (usually hurried and poorly planned) or planned change.

**The Change Process**

Changing an entire organisation of just a section is challenging and the reasons can include mistrust, a lack of teamwork, and a lack of leadership skills, internal politics and organisational culture. The steps in the change process are illustrated in Figure 29.

*Figure 29: Steps in the Change Process*

(Adapted from: Hellriegel, 2007:344)
Change might be triggered by a decline in profits, a union strike, market needs, or a method of production. Once the need for change is recognised and defined, managers must clearly state the desired outcome of the change intervention. The causes for the change must be analysed to ensure that the right change is made. A change technique must be selected and can include, retraining, retrenchments etc. Management must now plan its implementation and keep in mind the cost of the change, budget implications, target dates and the effect it will have on the rest of the organisation. The final step deals with evaluating the change process to determine if it was successful and also if there is a need for further change.

**Areas of Organisational Change**

Change normally takes place in the following areas: strategy, structure, technology and people. It is important to note that if change happens in any of these areas; it will have an effect in some or all of the other areas. The areas of organisational change are illustrated in Figure 30.

**Figure 30: Forces of Organisational Change**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Structure</th>
<th>Technology</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Goals</td>
<td>• Bureaucracy (levels,</td>
<td>• Production Technology</td>
<td>• Knowledge and skills</td>
</tr>
<tr>
<td></td>
<td>span of control,</td>
<td>Information Technology</td>
<td>• Motivation</td>
</tr>
<tr>
<td></td>
<td>departmentalisation)</td>
<td>Systems Technology</td>
<td>• Performance management</td>
</tr>
<tr>
<td></td>
<td>• Authority (Formal,</td>
<td>• Operation Technology</td>
<td>• Reward allocation</td>
</tr>
<tr>
<td></td>
<td>informal)</td>
<td>• Control Systems</td>
<td>• Behaviour</td>
</tr>
<tr>
<td></td>
<td>• Decision-making</td>
<td></td>
<td>• Culture (beliefs, values,</td>
</tr>
<tr>
<td></td>
<td>(Centralised vs.</td>
<td></td>
<td>attitudes)</td>
</tr>
<tr>
<td></td>
<td>Desentralised)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Organisation’s design</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(restructuring, reengineering, downsizing)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Adapted from: Robbins, 540)

**Resistance to Change**

Change triggers emotional reactions in people because of the uncertainty involved. Some of the reasons for resistance to change include the following:

- Threatened self-interest (people perceive change to cause them to lose something of value);
- Uncertainty (a possibility of a possible job-loss, having to relocate or undergo training);
- Lack of trust and misunderstanding (if there is distrust and suspicion when failing to understand the purpose);
• Different perceptions (of the cost and benefits of a proposed change);
• Low tolerance for change (fear that they will not be able to develop the new competencies necessary).

Overcoming Resistance to Change

Smit et al. (2011: 223) states that “resisting change is a human response and management should take steps to counter it”.

The methods below may be useful in decreasing resistance to change:

• Education and communication;
• Participation and involvement;
• Facilitation and support;
• Negotiation and rewards.

Why Change Efforts Fail

Kotter (in Smit et al., 2011: 224) singles out the following reasons why change in an organisation may fail:

• Too much complacency;
• Failing to create a sufficient coalition to make change happen;
• The absence of an existing vision;
• Under-communicating the vision;
• Permitting obstacles to block the vision;
• Failing to create short-term wins;
• Neglecting to anchor changes firmly in the corporate culture.

Culture and Change

Smit et al. (2011: 225) define corporate culture as the beliefs and values shared by people in an organisation. It is a set of basic assumptions; beliefs or convictions about how the world and how it works. It is important that an organisation’s culture is aligned with the strategy and structure as it could lead to resistance if there is disconnect. Every organisation has its own unique personality, system and code of conduct.
Elements that Determine and Express a Corporate Culture

Symbols such as rituals and customs, ideologies, language, tales, assumptions, relationships and humour portray an organisation's culture.

Changing the Organisational Culture

The content of an organisation's culture is made up of the above-mentioned elements and it is this content that drives the culture. The stronger the culture, the more powerful is its effects and also difficult to change. It is important to analyse an existing culture before a change of culture is planned. A tool that can be used is called an Organisational Culture Analysis (OCA).

According to Smit et al. (2011: 229), there are a few basic approaches that managers can follow in attempting to change culture:

- Getting people to subscribe to a new pattern of beliefs and values and changing some of the elements of culture;
- Inducting and socialising people into the organisation and removing people who deviate from the culture;
- Strengthening the prevailing culture through appropriate communication and training;
- Making use of mergers or acquisitions and disinvestments to change an organisational culture.

Organisational Development

Organisational development is the on-going planned effort to manage change as a means of improving organisational performance. People's skills and abilities are improved by means of a planned training and development programme.

Organisational Development Models

Force Field Analysis

All strategic plans have one thing in common: to make a difference or change. However, every change process has supporting and resisting forces. Therefore, strategic managers must be able to understand and manage these forces. A common change management technique used to analyse the supporting and resisting forces is called the force field analysis (Developed by Kurt Lewin, 1951).
The steps followed in the process of the force field analysis are as follows (use in a team setting):

1. Ask the strategic team members to list the supporting forces on the one side, drawing bolder or narrower arrows against each statement, to indicate the strength of the force which is pushing the present situation towards the goal. Remember forces can be internal or external to the organisation.

   Internal and external forces continuously pressurise organisations to change. These forces vary from organisation to organisation, and some of them are presented below:
   - Technology (IT)
   - Political changes
   - Policy changes
   - Globalisation
   - Decentralisation
   - Emphasis on people development and management
   - Privatisation/outsourcing
   - Equity

2. On the other side, list the forces hindering change or those that are reducing your power to reach the goal. Once again, indicate the strength of the force against attaining your goal, by using a bolder or finer arrow.

   Explain that one is able to move towards the goal by increasing the helping forces or by reducing the hindering forces. Sometimes the more pressure that comes from the helping forces, the more resistance develops in the hindering forces. In such cases, it is often best to start by reducing the hindering forces.

3. Now ask the project team to choose either one of the helping forces which they could strengthen, or one of the hindering forces which they could reduce. Taking the force as the new situation, ask them to identify their goal in regard to working with this force.

4. Finally, identify the potential ‘assets for change’, which are not currently harnessed as driving forces, but which could be summoned up, for example external expertise. These are then included on the diagram for later consideration when they might be brought into play

A word of warning: the Force field idea needs to be applied with some care – you need to be clear what you mean when you identify someone or something as a ‘force’ and be sensitive to thinking in terms of opposing sides. The aim is not to create well-defined battle lines! Be careful not to let force field analysis draw you or other people into thinking in ‘win-lose’ terms. **Figure 31** illustrates the force field analysis model.
Figure 31: Force Field Analysis Model

To learn more about Change Management, click on the link below:

A brief introduction to Change Management [Video Clip] (Brown, 2011: http://www.youtube.com/watch?v=3Jk6cImMycl)

Recap Question

Explain the link between strategic management and change management.
8. **REFERENCES**


