MNG2601: GENERAL MANAGEMENT

CH1 Introduction to Management p3

Introduction p4

All organisations utilise societies' scarce resources, namely:

#	Scarce Resource	Academic Name
1	People	Human resources
2	Money	Capital
3	Raw materials	Physical resources
4	Knowledge	Information resources

Business Organisations and Managers p5

The ways in which organisations serve society: they bring together the resources of a nation to produce the goods and services it needs.

The Nature of Management p6

The 4 fundamental management functions:

#	Management Function
1	Planning
2	Organising
3	Leading
4	Controlling

Learn Table 1.1: The basic resources of an organisation p7

The interactive nature of the management process: the external environment:

#	Function	Description
1	Planning	Managers determine the organisation's vision, mission and goals and decide on a strategy to achieve them
2	Organising	Managers group activities together, establish authority, allocate resources, and delegate
3	Leading	Managers direct and motivate members of the organisation to achieve the mission and goals
4	Controllin g	Managers monitor progress and take corrective steps to reach the mission and goals

A Definition of Management p8

Management is the process of planning, organising, leading, and controlling the scarce resources of the organisation to achieve the organisation's mission and goals as productively as possible.

#	Function	Description
1	Planning	• The management function that determines where the organisation wants to be in the future: vision, mission, goals • Strategic plans: made by top management, 5-10 years • Tactical plans: made by functional managers • Operational plans: made by lower management, shorter term plans i.e. daily, weekly, monthly
2	Organising	• Allocation of human resources • Tasks, roles and responsibilities are defined • Development of a framework or organisational structure • Organisational design: management must match the organisation's structure to its strategies
3	Leading	• Directing the human resources of the organisation and motivating them in such a way that they will be willing to work productively to reach the organisation's mission and goals • Managers are responsible for getting things done through other people • Leading the organisation means making use of influence and power to motivate employees to achieve organisational goals
4	Controllin g	• Managers should constantly make sure that the organisation is on the right course to reach its goals • The aim of control is to monitor actual results against planned results

Different Levels and Kinds of Management in the Organisation p10

Managers are usually classified into 2 categories p10:

#	Category	Description
1	According to their level in the organisation	Top, middle, lower or first-line
2	By the functional or specialist area of management for which they are responsible	The functional managers i.e. marketing manager, finance manager, operations, human resources, research and development etc.

Top management p10:

#	Responsibility
1	Responsible for the organisation as a whole
2	Includes board of directors, partners, managing director, chief executives
3	Responsible for determining the mission, vision, goals and overall strategies of the entire organisation

4	Concerned with long-term planning, designing the organisation's broad organisation structure, leading the organisation, and monitoring (controlling) its overall performance

Middle management p11:

#	Responsibility
1	Responsible for specific departments of the organisation
2	Includes functional heads such as financial manager, marketing manager etc.
3	Primarily concerned with implementing the strategic plan formulated by top management
4	Responsible for medium-term planning (the near future) and leads by means of the department heads
5	Continually monitor environmental influences that may affect their own departments

Lower/first-line management p11:

#	Responsibility
1	Responsible for smaller segments of the organisation e.g.: the different sections
2	Includes supervisors or foremen
3	Deal with the monthly, weekly and daily management of their sections
4	Ensure the plans made my middle management are implemented
5	The primary concern of a supervisor is to apply policies, procedures and rules to achieve a high level of productivity in his/her section, to provide technical assistance, to motivate subordinates, and to ensure that the section's goals are reached

Learn the areas of management p12

The Role Distribution of Managers p14

Henry Mintzberg, a famous theorist, came to the conclusion that managers play about 10 different roles i.e. the overlapping role distribution of managers:

#	Category	Description
1	Interpersonal role	Figurehead
2		Leader
3		Relationship builder
4	Information role	Monitor
5		Analyser
6		Spokesperson
7	Decision-making role	Entrepreneur
8		Problem solver
9		Allocator of resources

10		Negotiator

Managerial Skills and Competencies at Various Managerial Levels p15

The 3 major skills needed by managers at all levels and in all departments and sections of the organisation are:

#	Skill	Description
1	Conceptual	The mental ability to view the organisation and its parts holistically. Involves the manager's thinking and planning abilities
2	Interpersonal	The ability to work with people
3	Technical	The ability to use the knowledge or techniques of a specific discipline to reach specific goals

Learn Figure 1.6 Managerial skills needed at various managerial levels p16

A competency in managerial skills refers to the necessary:

#	Competency
1	Knowledge
2	Skills
3	Value orientation

Management and Organisational Performance p18

#	Theory	Description
1	The **fundamental economic principle**	Achieving the highest possible satisfaction of needs with scarce resources
2	The task of management in a free-market economy	To manage in such a way that the organisation makes a sustainable profit, that is, earns the highest possible income with the lowest possible costs
3	The triple bottom line	Run the organisation as profitably as possible with due responsibility of the organisation towards the community, as well as the environment for which it needs to care

CH2 The Evolution of Management Theory p27

Understanding the Different Management Theories p30

The environmental forces that shape management thought:

#	Environmental Force
1	Social
2	Ecological
3	International
4	Technological
5	Economic
6	Political

The key elements of productivity are:

#	Element of Productivity	
1	The outcome is continuous improvement of performance	
2	The improvement must be measurable	
3	The key drivers of productivity are: • Effectiveness • Efficiency • Utilisation • Elimination of all forms of waste	 Doing the right things Doing things the right way Optimum use of human capital and physical resources
4	The benefits of productivity must be: • The environment • The economy • Society	

The Theories of Management p30

There are 2 main schools of thought:

#	School of Thought	Description
1	Classical approaches	
2	Contemporary approaches	
3	The **eclectic approach**	Borrowing management principles from different theories as dictated by circumstance

Learn Figure 2.2: The evolution of management theory p32

The Classical Approaches p32

The main limitations of the classical approaches:

#	Limitation
1	They ignored the relationship between the organisation and its external environment
2	They focused on specific aspects of the organisation at the expense of other considerations

Scientific Management School p34

#	Fact	Description
1	Founded by	Frederick W. Taylor
2	What he studied	Studied individual workers to see exactly how they performed their tasks
3	Premise	There is 1 best way to perform any task and measure everything that is measurable - known as **time-motion-study**
4	Problem he addressed	How to judge whether an employee had put in a fair day's work
5	Limitations	• Workers cannot be viewed simply as parts of a smoothly running machine • Money is not the only motivator of employees • Creates the potential for exploitation of labour i.e. possible strikes by workers • Can lead to ignorance of the relationship between the organisation and its changing external environment as the focus remains on internal issues i.e. the workers and their productivity
6	Belief	Money motivates workers

The 3 **fundamental** things he taught:

#	Fundamental Lesson
1	Find the best practice wherever it exists – today we call it "benchmarking"
2	Decompose the task into its constituent elements – we call it "business process redesign"
3	Get rid of things that don't add value

Summary:

#	Summary
1	Summary: scientific management focused on the issue of managing work – not on managing people
2	**Focus: ways to improve the individual worker**

The Process or Administrative Approach p34

#	Fact	Description
1	Founded by	Henri Fayol
2	What he studied	Administrative side of operations
3	Premise	There are 5 basic functions of administration: planning, organising, commanding, coordinating, and controlling
4	**Limitation**	Postulates that formal authority should be maintained by managers
5	Belief	Management is a skill – something that one can learn once its underlying principles are understood
6	Focus	Focuses on managing the total organisation

Learn Fayol's 14 principles p35

The Bureaucratic Approach p35

#	Fact	Description
1	Founded by	Max Weber
2	What he studied	The fundamental issue of how organisations are structured
3	Premise	Any goal-oriented organisation comprising thousands of individuals would require the carefully controlled regulation of its activities
4	Problem he addressed	He developed a theory of bureaucratic management that stressed the need for a strictly defined hierarchy, governed by clearly defined regulations and authority
5	Limitations	• Bureaucratic rigidity results in managers being compensated for doing what they are told to do – not for thinking • Managers are often rewarded for complying with old, outdated rules • Limited organisational flexibility and slow decision-making
6	Belief	• Weber's ideal bureaucracy is based on legal authority • Legal authority stems from rules and other controls that govern an organisation in its pursuit of specific goals • Managers are given authority to enforce the rules by virtue of their position • Obedience is not owed to an individual person but to a specific position in the hierarchy of the organisation

Human Relations Movement p36

- Grew out of a famous series of studies called the 'Hawthorne Studies'.

- The studies following the 'Hawthorne Effect' concluded that group pressure, rather than management demands, had the strongest influence on worker productivity.
- In short, workers were more motivated by social needs than economic needs.

#	Fact	Description
1	Founded by	Mayo
2	What he studied	Hawthorne Studies (see above)
3	Premise	Management's concern for the well-being of their subordinates and sympathetic supervision enhances workers' performance
4	Problem he addressed	Viewed workers as human beings and not as machines
5	Limitations	• The belief that a happy worker is a productive worker is too simplistic • Economic aspects of work remain important to workers • The human aspect of work is even more complex than originally suggested by the results of the Hawthorne Studies • Many factors play a role in the productivity of workers: their values, attitudes, perceptions, learning, motivation
6	Belief	Management's concern for the well-being of their subordinates and sympathetic supervision enhances workers' performance

The Quantitative Management Theory p38

#	Fact	Description
1	Founded by	Not any
2	What he studied	Management science or operations research
3	Premise	Management is primarily about crunching the numbers
4	Problem he addressed	The greatest contribution of the techniques (linear programming, PERT/CPM, regression analysis) are in planning and control activities
5	Limitations	Many aspects of management decisions cannot be quantified and expressed by means of mathematical symbols and formulae
6	Belief	Not addressed in text book
7	Focus	Deals with mathematical models, statistics, and other models, and their use in management decision-making

Contemporary Approaches p39

The Systems Approach p39

#	Fact	Description

1	Founded by	Ludwig von Bertalanffy
2	What he studied	Not any
3	Premise	He noted characteristics common to all sciences: • The study of a whole, or organism • The tendency of a system to strive for a steady state of equilibrium • An organism is affected by and affects its environment and can thus be seen as an open system
4	Problem he addressed	Viewed an organisation as a group of interrelated parts with a single purpose: to remain in balance (equilibrium)
5	Limitations	
6	Belief	From a systems point-of-view, management should maintain a balance between the various parts of the organisation, as well as between the organisation and its environment
7	Focus	The open system perspective of an organisation is a system that comprises 4 elements: • Input – resources • Transformation processes – managerial processes, systems etc. • Outputs – products or services • Feedback – reaction from the environment

The Contingency Approach p40

Based on the systems approach to management:

#	Fact	Description
1	Founded by	Not listed in text book
2	What he studied	Equifinality – there is more than one way to reach the same goal i.e. different treatments may be available for the same management problem
3	Premise	• The application of management principles depends on the particular situation that management faces at a given point in time • Emphasises a situational approach (dependent on a specific situation) but not all management situations are unique, so; • The characteristics of a situation are called 'contingencies': o The organisation's external environment - its rate of change and degree of complexity o The organisation's own capabilities – its strengths and weaknesses o Managers and workers – their values, goals, skills, and attitudes o The technology used by the organisation
4	Problem he addressed	• Recognises that every organisation, even every department or unit within an organisation is unique

#	Fact	Description
		• Every organisation exists in a unique environment with unique employees and unique goals
5	Limitations	Not listed in text book
6	Belief	• There is no single best way to manage • Management has to decide whether to use principles of the: scientific, bureaucratic, administrative, behavioural, or quantitative approaches or a combination of these
7	Focus	• Tries to direct the available techniques and principles of the various approaches to management towards a specific situation in order to realise the goals of the organisation as productively as possible • The manager must learn multiple ways to compete, innovate, and lead

Total Quality Management p42

#	Fact	Description
1	Founded by	W. Edwards Deming
2	What he studied	Total: quality involves everyone and all activities in the organisation; Quality: meeting customers' agreed requirements, formal and informal, at the lowest cost, first time every time; Management: quality must be managed
3	Premise	• A well-organised organisation was one in which statistical control reduced variability and resulted in uniform quality and a predictable quantity if output • It is a philosophy of management that is driven by competition and customer needs and expectations • Customer: everyone who interacts with the organisation's products or services, internally or externally i.e. employees, suppliers and the people who buy the products or services
4	Problem he addressed	• Countered the belief that low costs were the only way to increase productivity
5	Limitations	• Should not be confused with quality control: quality control identifies mistakes that may already have occurred where; • TQM emphasizes actions to prevent mistakes
6	Belief	• A profound knowledge, including an understanding of a system, statistics, and psychology, is required for the achievement of quality
7	Focus	• Create an organisation that is committed to continuous improvement

Learn: the principles of TQM p43

Six Sigma p44

#	Fact	Description
1	Founded by	Motorola in the 1980s
2	What he studied	
3	Premise	• Six Sigma is a quality initiative that focuses on defects per million • The difference between potential and actual quality is waste
4	Problem he addressed	Designed to improve manufacturing processes
5	Limitations	
6	Belief	Defined at 3 different levels at Motorola University: • As a metric – 3.4 defects per million opportunities (DPMO) • As a methodology – business improvement methodology that focuses on: o Understanding and managing customer requirements o Aligning key business processes to achieve those requirements o Utilising rigorous data analysis to minimise variation in those processes o Driving rapid and sustainable improvement to business processes • As a management system
7	Focus	• Focus on improving quality (reducing waste) by helping organisation to produce products and services better, faster and more cheaply • Focuses on defect prevention, cycle-time reduction, and cost savings • Identifies and eliminates costs that provide no value to customers i.e. wasted costs

Learn: the South African excellence model p45

Six Sigma Management System p46

Six Sigma is a high performance system for implementing business strategy. It is a top-down solution to help organisations to:

#	Description
1	Align their business strategy to critical improvement efforts
2	Mobilise teams to attack high-impact projects
3	Accelerate improved business results
4	Govern efforts to ensure improvements are sustained

DMAIC p46:

#	Legend	Description
D	Define	Define the goals of the improvement activity
M	Measure	Measure the existing system
A	Analyse	Analyse the system to identify ways to eliminate the gap between the current performance of the system or process and the desired goal. Statistical tools should be used.
I	Improve	Improve the system. Use statistical methods to validate the improvement
C	Control	Control the new system

Six Sigma Roles and Responsibilities p46:

#	Legend	Description
1	Champions	High-level individuals who understand Six Sigma and are committed to its success
2	Sponsors	Owners of processes and systems who help initiate and coordinate Six Sigma improvement activities in their areas of responsibility
3	Master Black Belt	Highest level of technical and organisational proficiency: provides the technical leadership of the Six Sigma programme
4	Black Belt	Technically oriented individuals held in high regard by their peers. Actively involved in the process of organisational change and development.
5	Green Belt	Six Sigma project leaders capable of forming and facilitating Six Sigma teams and managing Six Sigma projects from concept to completion

Senge’s 7 Organisational Learning Disabilities p47:

#	Disability
1	The delusion of learning from experience
2	Generative learning cannot be sustained in an organisation if employees’ thinking is dominated by short-term events. A short-term inclination prohibits creative learning
3	The myth of teamwork
4	“I am my position”: when people in organisations focus only on their jobs, they have little understanding of and sense of responsibility towards the results produced when all jobs interact
5	The enemy is out there
6	The illusion of taking charge: often proactiveness is reactiveness in disguise. True proactiveness comes from seeing how we contribute to our own problems
7	The parable of the boiled frog

Senge's 5 disciplines that enable us to overcome these disabilities and create new futures for the organisation:

#	Discipline
1	Becoming committed to lifelong learning
2	Challenging one's own assumptions and generalisations about the organisation and the world around it: this is essential to becoming a learning individual and a learning organisation
3	Sharing a vision for the organisation
4	Encouraging active dialogue in the organisation
5	Promoting systems thinking: it is vital that these dsiciplines develop as a unit

Re-engineering p48

#	Fact	Description
1	Founded by	Hammer and Champy
2	What he studied	
3	Premise	• Re-engineering considers the entire organisation, including its suppliers and customers • It involves a significant reassessment of what a particular organisation is all about • It entails a fundamental reappraisal of the way that organisations operate
4	Problem he addressed	
5	Limitations	
6	Belief	The following 6 conditions are vital for successful re-engineering: 1. Powerful external forces for change should make change inevitable 2. Vigorous backing from top management 3. Focus on the process improvements that customers really care about and are willing to pay for 4. Thorough knowledge of the needs for customers is essential 5. All major departments effected by the process(es) should be represented on the team 6. Changes in HR programmes and IT should be closely coordinated with the re-engineering effort
7	Focus	Re-engineering is constant and relentless in its focus on integrating 4 key drivers: 1. People 2. Process 3. Technology 4. Infrastructure

Current and Near Future Management Realities p49

- The new source of sustainable competitive advantage available to organisations has people at its centre- their knowledge, creativity, and talent
- Capital and technological advantages can be emulated by competitors, but the human asset is intangible and very difficult to imitate

The fact that the new competitive advantage lies in the human assets of organisations poses unprecedented challenges to the modern manager. Managing this source of competitive advantage requires that managers thoroughly grasp:

#	Grasp
1	How the current and near-future environments differ from previous ones
2	How today's organisations differ from previous ones
3	The impact of both of the above on management

Corruption is a major problem in Africa, it undermines development by:

#	Corruption
1	Raising transaction costs
2	Increasing uncertainty
3	Promoting bribery
4	Often results in capital outflows as this money is forwarded to foreign bank accounts

The types of environments p50:

#	Environment	Description
1	Evolutionary	• Predictable • Change gradually which makes it possible to predict trends
2	Revolutionary	• Unpredictable • Drastic change aka *discontinuous change* • Forecasting becomes impossible in these types of environments

Scenario development is the visualisation of alternative futures.

Other types of management:

#	Type of Management	Description
1	Cross-boundary management	Managers need to be able to assess the implications of their decisions on different people, processes, systems, and so on that make up the organisation
2	Interim management	• Ensuring that the best manager manages specific projects

#	Type of Management	Description
		• This means that the workforce of organisations will be in constant flux (it is also known as transient or journey management)

CH3 Managing in a Changing Environment p57

Introduction p58

Managers cannot manage their organisations effectively if they do not p60:

- Understand the relationship between the organisation and its environment
- The threats and opportunities that exist in the environment
- The trends that appear and disappear
- How all of these form part of a broad environmental system

Concepts of Systems Theory p61

The Organisation as a Sub-System of its Environment p61

#	Study Note
1	A system can be defined as a set of interrelated elements (sub-systems) functioning as a whole
2	A business organisation is a system that operates in a specific environment
3	Business organisations are not self-sufficient, nor are they self-contained
4	They exchange resources with and are dependent upon the external environment in which they operate
5	The organisation and its environment depend on each other for survival

Learn Figure 3.2: A systems perspective of an organisation p61

A business organisation obtains resources or inputs from the environment in the form of:

#	Resource or Input
1	People (labour)
2	Physical resources (raw materials)
3	Capital (financial resources)
4	Information (knowledge and expertise)

The **transformation process** – the activity of processing inputs from the environment into products and services for the environment – constitutes the field of study of management. This transformation process is carried out by the organisation as a specific sub-system of its environment.

The Systems Approach in Management p61

There are 4 basic concepts that must be understood when explaining systems theory and presenting the business organisation as an interdependent system:

#	Concept

1	An open system (as opposed to a closed system)
2	Sub-systems
3	Synergy
4	Entropy – the process of systems disintegration

More about **systems**:

#	Concept
1	A system is **closed** when it is self-supporting and can exist independently of a particular environment
2	A system is **open** if: • It is dependent on the environment in which it operates • The environment is dependent on the system • There is a specific interaction between system and environment
3	A **sub-system** is a system within a system e.g. the marketing, operations, human resources and finance functions in an organisation

The particular value of the systems approach is that it emphasizes the fact that the activities in one part of an organisation affect the activities in other parts.

Synergy is another concept of the systems theory:

#	Concept
1	The whole is greater than the sum of its parts – the individual sub-systems are simultaneously applied in such a way that the result of their simultaneous application is greater than the sum of their individual efforts

The Composition of the Management/Business Environment p63

Learn Figure 3.3: The composition of the management environment p64

#	Study Note
1	The **management environment** is defined as all those factors or variables, both inside and outside the organisation, that may influence the continued and successful existence of the organisation
2	The **business environment** comprises the: • Macro-environment (external environment) • Market environment (external environment) • Micro-environment (internal environment)

The **micro-environment** p63:

#	Study Note
1	The key variables in this environment include: • The vision, mission, and goals • Organisation strategies • Various management functions • The organisation's resources • The organisation's employees and organisational culture
2	Management primary task in this environment: • To identify the strengths and weaknesses of the business organisation

The **market-environment (or task environment)** p63:

#	Study Note
1	Surrounds the organisation
2	The key variables in this environment include: • Consumers – needs, preferences, purchasing power, behaviour • Suppliers – supply of products, raw materials, services and even finance • Intermediaries – compete to distribute an organisation's product or its competitors • Competitors – established (as well as new and potential) and wish to maintain or improve their position • Labour unions – deal with the supply of labour
3	Management primary task in this environment: • Identify, evaluate, and utilise opportunities in the market • Minimise threats • Develop its strategy in such a way that it can deal with competition in that industry

The **macro-environment** p65:

#	Study Note
1	Exists outside of the organisation and the market environment
2	It comprises 6 distinct sub-environments (aka the **PESTIE** environment): • The **political environment** – the government, political involvement, and legislation • The **economic environment** – inflation, recession, exchange rates, monetary and fiscal policy • The **social environment** – lifestyles, urbanisation, habits, values, culture • The **technological environment** – responsible for the pace of innovation of change (includes infrastructure) • The **international environment** • The **ecological environment** – natural resources, flaura and fauna, mineral resources, access to water, quality of air etc.

Main Characteristics of the Management/Business Environment p65

#	Characteristic
1	The **interrelatedness of environmental factors** or variables
2	**Increasing instability**
3	**Environmental uncertainty** – this is a function of the amount of info available as well as the confidence that management has in that info
4	The **complexity of the environment** – relates to the number of external variables to which the organisation must react as well as fluctuations in the variables themselves
5	The environment is becoming **unpredictable**

The Internal or Micro-Environment p66

#	Study Note
1	Internal environment: main environment in which management operates i.e. plan, organise, lead, control
2	The internal environment can be described in terms of the organisation's: • **Functional departments** (finance, operations etc.) • **Resources** (human, financial, physical, information) • **Value-chain** (primary and secondary activities)
3	The 2 different ways of looking at the internal environment: • A structure that comprises functional departments • An environment that comprises the resources
4	The **value-chain approach** – a chain of activities that must be performed to create a product or service, according to this approach an organisation comprises: • Primary activities • Secondary activities

The Market or Task Environment p67

#	Study Note
1	This is the environment that immediately surrounds the organisation, it comprises the: • Market • Suppliers • Intermediaries • Competitors • Substitute products • Possible new entrants • Labour unions

The Market p68

Changes in in markets are influenced directly by the variables in the macro-environment:

#	Environment	Description
1	Demographic trends	Affect the number of consumers
2	Economic factors	Determine the purchasing power
3	Cultural values	Exert particular influences on the purchasing behaviour of consumers

Intermediaries p69

#	Study Note
1	Creates the utilities of: place, time and ownership
2	Wholesalers, retailers, commercial agents, brokers, spaza shops
3	Financial intermediaries

Competitors p70

#	Study Note
1	**Competition** can be defined as a situation in the market environment in which different organisations with more or less the same product or service compete for the business patronage of the same consumers
2	Competition ensures: • Excessive profits are kept in check • Incentives are provided for higher productivity • Technological innovation is encouraged
3	**The nature and intensity of competition in a particular market are determined by 5 forces:** • The threat of new entrants (competitors) or competitors departing • The bargaining power of clients and consumers • The bargaining power of suppliers • The threat of substitute products or services • The number of existing competitors
4	Management must be sensitive to trends in the market environment to enable it to make the most of opportunities and to avoid possible threats timeously – the tools that management should use for this purpose are: • Environmental scanning • Information management

Learn Figure 3.6: Competitive forces in an industry p71

The Macro-Environment p71

The Composition of the Macro-Environment p71

#	Study Note
1	Represent the uncontrollable environmental force, or “megatrends”
2	The 6 variables, called “PESTIE”: • Political • Economic

#	Study Note
	• Social • Technological (includes infrastructure i.e. roads, bridges etc.) • International • Ecological

The Technological Environment P72

#	Study Note
1	Refers to the knowledge of how to do something
2	The most basic effect of technological innovation is productivity which results in keener competition
3	Superior management of technology and innovation within the organisation can be an important source of competitive advantage
4	The technological environment should be assessed continuously, this includes: • Identification of important technologies and technological trends both inside and outside the industry • Analysis of potential change in important current and future technologies • Analysis of the competitive impact of important technologies • Analysis of the organisation's technological strengths and weaknesses • A list of priorities which should be included in a technology strategy for the organisation

The Economic Environment P73

#	Study Note
1	The economy is influenced by changes in: • Technology • Politics • Ecology • Social • International environment
2	These cross influences constantly cause changes in: • Economic growth rate • Levels of employment • Consumer income • Rate of inflation • Exchange rate • The general state of the economy

The Socio-Cultural Environment P74

#	Study Note
1	This is the environmental variable that is most sensitive to cross-influences by other variables, especially technology and economy
2	Culture - the same total of the way of life of a group of people – influences an individual's lifestyle

#	Study Note
3	Culture is not homogeneous, there are numerous sub-cultures based on: • Nationality • Religion • Population group • Geographical area
4	An organisation is at the centre of social change

The Ecological/Natural Environment p76

#	Study Note
1	The ecological or physical environment contains the limited natural resources from which an organisation obtains its raw materials
2	Threats include: • A shortage of resources • The rising cost of energy • The cost of pollution • Damage to a country's natural resources

The Political Environment p76

#	Study Note
1	It influences the organisation primarily as a regulating force
2	Other influences include: • Annual budget • Taxation • Import control (or lack of it) • Promotion of exports • Import tariffs to protect certain industries against excessive foreign intervention • Price control in respect of certain goods and services • The marketing of agricultural products • Health regulations and incentives

Interfaces Between the Organisation and the Environment p78

Uncertainty in the Environment p79

#	Study Note
1	An organisation's environment can be studies from 2 perspectives: • The extent of change – the degree of stability or instability • The level of complexity – depends on the number of variables

Learn Figure 3.7: Environmental change and uncertainty p80

Ways in Which Management Can Prepare for Environmental Changes p81

#	Study Note
1	The response to environmental change revolves mainly around: • Environmental scanning • Information management
2	Responses to change: • Managing information • Strategic responses • Structural change

Information management p81:

#	Study Note
1	An organisation’s information management system should make adequate provision for environmental scanning
2	The importance of environmental scanning: • The environment is changing constantly • Determine whether factors in the environment constitute a threat to the organisation’s mission, goals, and strategy • Determine if the factors in the environment offer opportunities
3	The extent of environmental scanning is determined by: • The nature of the environment in which an organisation operates and the demands the environment makes on it • The basic relationship that an organisation has with its environment • The source and extent of change will influence the degree of meaningful scanning

CH4 Strategic Planning p89

Introduction p90

- The strategic plan provides focus to all other plans
- It states the direction that the organisation has chosen for its future as well as its gameplan (strategy)
- It is built around the organisation's unique strengths; and minimises the weaknesses
- It deals with major opportunities and threats

Strategic Planning: What it Encompasses p91

Learn Figure 4.2: The strategic management process (planning, implementation and control) p93

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

Strategic planning deals with:

#	Study Note
1	An environment that is constantly changing
2	An organisation that needs to be flexible to adapt to these changes
3	Strategies to align the organisation with the changing environment

Strategic planning has some unique characteristics p92:

#	Study Note
1	It is an ongoing activity (a process)
2	Requires well-developed conceptual skills and is performed mainly by top management
3	Focuses on the organisation as a whole
4	It is future oriented
5	It is concerned with the organisation's vision, mission, long-term goals, and strategies
6	Aims at integrating all management functions
7	Focuses on opportunities that may be exploited, or threats that may be dealt with

Corporate strategy p93:

#	Study Note
1	The corporate strategy, also called the 'grand strategy' is the course charted

#	Study Note
	for an organisation as a whole
2	It specifies which set of businesses the organisation should be in and in which markets it intends to compete
3	The corporate strategy decision is driven by ‘synergy’, which means that at corporate level strategists will look for a set of business organisations that produces an effect greater than the sum of the individual businesses

So, in a nutshell, **strategies** are formulated at p94:

#	Strategy
1	Corporate level
2	Business level
3	Functional level

The Strategic Planning Process p95

The components of the strategic planning process p95:

#	Strategy
1	The vision
2	The mission statement
3	Assessing the internal environment
4	The external environment
5	Translating the mission into long-term goals
6	Choosing a strategy

The Vision p95

#	Study Note
1	The vision should provide a clear sense of what the organisation hopes to become
2	When formulating a vision statement, the means should not be confused with the end
3	Stakeholders with whom the vision statement should be shared: • Shareholders • Employees • Customers • Suppliers • The community • The government
4	A clear vision is important for the following reasons: • It portrays the dream that the organisation has for the future • It promotes change – it serves as a roadmap and as a vehicle for driving change • It provides the basis for a strategic plan • It enhances a wide range of performance measures • It helps to keep decision-making in context – it can affect the

#	Study Note
	perspectives and premises that people use to make decisions in the absence of direct supervision • It motivates individuals and facilitates the recruitment of talent • It has positive consequences such as: higher level of job satisfaction, commitment, loyalty, pride, esprit de corps, clarity about values, productivity, and encouragement

The Mission Statement p96

#	Study Note
1	The vision statement is the dream; the mission statement deals with reality (and it is a strategic tool when used properly)
2	The mission statement aligns the organisation with its dreams in terms of – the **core components** of any mission statement: • Products (what is our business?) • Market (who is our customer?) • Technology (how will we provide this product or service to our customer?)
3	A mission statement should state what makes an organisation unique and therefore provide the organisation with a competitive edge i.e. unanimity of purpose
4	It serves as the basis for resource allocation because it states management's priorities and focus areas
5	It sets the parameters within which all decisions should be made
6	Other components of the mission statement, also referred to as the 'philosophy' of the organisation: • Concern for survival, growth, profitability (concern for financial soundness) • 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?)
7	The mission statement as a strategic tool: • Top management must make the mission statement a living document • Key performance areas (KPA) for the whole organisation must be stated clearly - all management levels and functional areas must be involved in the formulation of the mission statement • Get buy-in from everyone (should happen automatically if the above is in place) • KPAs must be cascaded down to all managers and employees – if each individual achieves his/her goals then the organisation will achieve its goals

The **3 types of values when writing a mission statement** p98:

#	Study Note
1	Business-focused values – acceptable behaviour in terms of efficiency, planning, productivity, responsibility
2	People-focused values – honesty, respect, trust, listening, openness
3	Development-focused

Assessing the Internal Environment p99:

#	Study Note
1	To ensure that the mission statement is realistic, management must: • Evaluate the organisation's (internal) capabilities (strengths and weaknesses) as well as; • The opportunities and threats posed by the changing external environment
2	The end result of an internal environmental assessment is called the organisational profile – this profile depicts the strategically important strengths and weaknesses on which the organisation should base its strategy
3	**The 3 step process of internal analysis:** • Identify strategic internal factors – key aspects of capabilities, limitations and characteristics • Evaluate strategic internal factors • Develop input for the strategic planning process

Step 1: Identify Strategic Internal Factors p99

#	Study Note
1	The **5 approaches** to determining an organisation's strengths and weaknesses (internal assessment): • The **evaluation of functional segments** – refer Table 4.1: The development of an organisational profile p101 • The **value-chain approach**: o Looks at an organisation as a chain of activities that transforms inputs into outputs that customers value o It surveys the costs across the series of activities (see below) that the organisation performs in order to determine where the organisation how low-cost advantages or high-cost disadvantages o The **value chain** distinguishes between 2 types of activities: ▪ **Primary activities** – those activities involved in the physical production (or delivery) of the product (or services) ▪ **Secondary activities** – provide the infrastructure that allow the primary activities to take place e.g. general admin, human resources management, research and development, technology, procurement etc. o Differentiation and response time can be used instead of cost analysis e.g. excellent customer service is a differentiating factor

#	Study Note

	• The **resource-based view (RBV)** – see below p102
	• The **product/market evolution** – based on product lifecycle p103
	• Using **financial analysis** – based on past data using the balance sheet and income statement, the key financial ratios are:
	  o Liquidity – the ability of an organisation to meet its short-term objectives
	  o Leverage – looks at the source of an organisation's capital
	  o Activity – looks at how well an organisation is using its resources
	• Profitability – measure how well an organisation is managed

Learn Figure 4.7: The value-chain approach to internal assessment p102
(same as FTI) *personal note

The Resource-Based View (RBV) of an Organisation p102

#	Study Note
1	According to the RBV of an organisation, there are 3 types of resources: • Tangible assets – found on an organisation's balance sheet e.g. property and warehouses • Intangible assets – cannot see or touch but are critical to creating competitive advantage e.g. brand names, patents, knowledge of the market • Organisational capabilities – the ability of an organisation to turn inputs into outputs
2	For a resource to be valuable (a strength) to a company it must be: • Superior to the resources of competitors e.g. a better location • Scarce so that competitors struggle to get hold of the resource • Difficult to imitate e.g. a view over the ocean • Under the control of management • Slow to depreciate • Difficult to substitute
3	The **hierarchy of resources** p103: • Strategic/competitive resources – the unique resources or capabilities of an organisation that cannot be easily emulated by its competitors • Base resources – those resources that an organisation cannot operate without • Peripheral resources – necessary resources but can easily be outsourced

Step 2: Evaluate Strategic Internal Factors p104

#	Study Note
1	Yardsticks that management can use to determine whether an internal factor is a strength or a weakness: • A comparison with the organisation's performance in the past • A comparison with competitors

#	Study Note
	• A comparison with industry ratios • Benchmarking – the search for the best practices among competitors and non-competitors that lead to their superior performance

Step 3: Develop Input for the Strategic Planning Process p106

The results of step 1 and 2could be applied to determine those internal factors that:

#	Study Note
1	Provide an organisation with an edge over its competitors
2	Are important capabilities for the organisation to have but are typical of every competitor in the industry
3	Are currently weaknesses in the organisation

The External Environment p106

#	Study Note
1	This uncontrollable **macro-environment** consists of the PESTIE environment: • Political – environmental protection laws, tax laws, special incentives • Economic – economic cycle, inflation, interest rates, unemployment levels • Social – quality of life, life expectancy, population growth, gap between rich and poor, urbanisation, career expectations of the population • Technological • International • Ecological
2	The **market environment** factors include: • Competitors • Customers • Suppliers • Potential entrants • Substitute products
3	The steps in environmental forecasting p108: • Monitor forecasts • Develop an environmental profile - a summary of the key environmental factors evaluated for their potential impact on the organisation • Evaluate forecasting techniques • Select sources of information • Select critical environmental variables • Monitor

Scenario planning is a tool used for creating these futures p110 – they can be built as follows:

#	Study Note
1	Determine which decisions will make or break the organisation in the next few years
2	Put together an information gathering network that focuses on forces most likely to have a significant impact on the organisation
3	Sketch ‘what if’ scenarios that deal with the most influential external forces in the environment – limit the number of scenarios to 3: worst case, status quo, fundamentally better
4	Access the implications of each scenario
5	Identify signs which could indicate that a particular scenario is materialising
6	Reassess your company’s vision in the light of the scenarios

Translating the Mission into Long Term Goals p110

The **Balanced Scorecard (BSC)** is used for this purpose. When fully deployed, the BSC transforms strategic planning from a conceptual exercise into the nerve centre of an organisation.

The 4 BSC perspectives measure the following:

#	Study Note
1	Financial perspective – operating income, return on capital employed and economic value added
2	Customer perspective – number of new customers, customer retention, customer defection and customer satisfaction
3	Internal business processes – continuous improvement, throughput and quality e.g. number of mistakes made during a certain process, and number of new processes incorporated in last year
4	Learning and growth – competency of employees, innovative ideas generated by employees and managers, and staff retention

Kaplan and Norton (created a tool called ‘strategy maps’) argue that you can’t measure what you can’t describe, and that sustained value creation depends on managing 4 key internal processes:

#	Study Note
1	Operations
2	Customer relationships
3	Innovation
4	Regulatory and social processes

Choosing a Strategy p111

When choosing a strategy, strategic planners decide on a core idea about how the organisation can best compete in the marketplace – this core idea is called the '**generic strategy**'.

#	Study Note
1	There are 3 types of generic strategy: • Low-cost leadership • Differentiation • Focus
2	The **low-cost leadership strategy**: • Maximises sales by minimising costs per unit and hence prices • Several things can be done to minimise costs: o The 'learning curve' or the 'experience curve' o Economy of scale – as size increases so cost per unit decreases because the fixed costs are shared with the larger number of products
3	The **differentiation strategy**: • An organisation can charge higher prices for a product that customers perceive to be different • Differentiation may be in terms of: o Quality o The production process o Design o Reputation o Friendliness to the environment

Grand Strategies p113

Learn Figure 4.11: Grand Strategies p114 (good diagram)

#	Study Note
1	When summarised they are: • **Growth strategies – internal growth strategies and external growth strategies** • **Decline strategies** • **Corporate combination strategies**
2	**Growth strategies** p114: • **Internal growth strategies** - low in risk – organisation keeps its focus on what it does well: o **Concentration growth strategy** – 'sticking to the knitting' i.e. concentrating on improving what the organisation is already doing o **Market development** – sell products in new markets by opening additional new outlets or attracting other market segments o **Product development** - modification or additions to existing products o **Innovation** – the search for continual and novel ideas, more

#	Study Note
	risky than above strategies • **External growth strategies** – higher risk: o Integration: ▪ Backward vertical integration – increased control of supply sources e.g. Sappi ▪ Forward vertical integration – acquisition of a business nearer to the ultimate consumer e.g. paper producer buying a bookstore ▪ Horizontal integration – long-term strategy in which one or more organisations are taken over for reasons such as scale-of-operations benefits or a larger market share o Diversification: ▪ The reasons for an organisation to diversify include: • The markets of current businesses are approaching the saturation or decline phase of the product life cycle • Risk can be distributed more evenly • Current businesses are generating excess cash that can be invested more profitable elsewhere • Synergy is possible when diversifying into new businesses ▪ **Concentric diversification** p117 – the addition of a business related to an organisation in terms of technology, markets, or products (the core components of a mission statement) e.g. Nandos' selling tis sauces in Checkers ▪ **Conglomerate diversification** – seeking growth by acquiring a business because it represents the most promising investment opportunity available
3	**Decline strategies p117** – when an organisation needs to (1) refocus its activities in order to remain profitable by cutting costs; (2) where long-run growth and profit opportunities are unavailable; (3) where other opportunities are more attractive; (4) where there is a period of economic uncertainty: • Turnaround – eliminate inefficiencies, cost and asset reduction • Divestiture – involves the sale of a business or a major component of it • Harvesting – short-term strategy • Liquidation
4	**Turnaround** is used when some of these factors are present: • Poor management • Inadequate financial control • Price and product competition • High cost structure • Change in the pattern of demand
5	**Corporate combination strategies p118:** • Joint ventures (JV) – long-term • Strategic alliances – time limited e.g. Protea Hotels and Budget Car Rental – the advantages:

#	Study Note
	o Growth through expansion o Sharing of technical and operational know how o More time for each partner to focus on its core business o Cost reduction • Mergers – total pooling of resources • Acquisitions – when one organisation takes over another and clearly establishes itself as the new owner – the advantages (same for merger): o Staff reductions o Economies of scale o Access to new technology o Higher sales and visibility in the industry

The Selection of Grand Strategies p119

The grand strategy selection process:

- Evaluate the selected strategy
- Select a grand strategy
- Conduct a portfolio analysis
- Identify the present grand strategy

There are many different approaches to portfolio management, we focus on the **Boston Consulting Group growth/share matrix (BCG)**:

#	Study Note
1	Each of the organisation's strategic business units (SBUs) is plotted according to its: • Market growth rate (percentage growth in sales) • Relative competitive position (market share)
2	**Learn Figure 4.14: The Boston Consulting Group growth/share matrix p121**
3	Business are classified as: • **Stars** – businesses in rapidly growing markets with large market shares, require substantial investment • **Cash cows** – low market growth but high market share • **Question marks** – high growth, low share SBUs, require a lot of cash to maintain • **Dogs** – low market share and low growth i.e. saturated market with intense competition and low profit margins

Factors Affecting Strategic Choice p122

#	Study Note
1	Corporate governance – the triple bottom line (economic, environment, social
2	Previous strategies chosen
3	Dependence on external factors
4	Attitude towards risk
5	Personalities of strategists
6	Alignment with the organisation's mission and long-term goals
7	Proper timing

Mintzberg research suggests that: past strategy strongly influences current strategy – the older and more successful a strategy is, the harder it is to replace – even when it begins to fail.