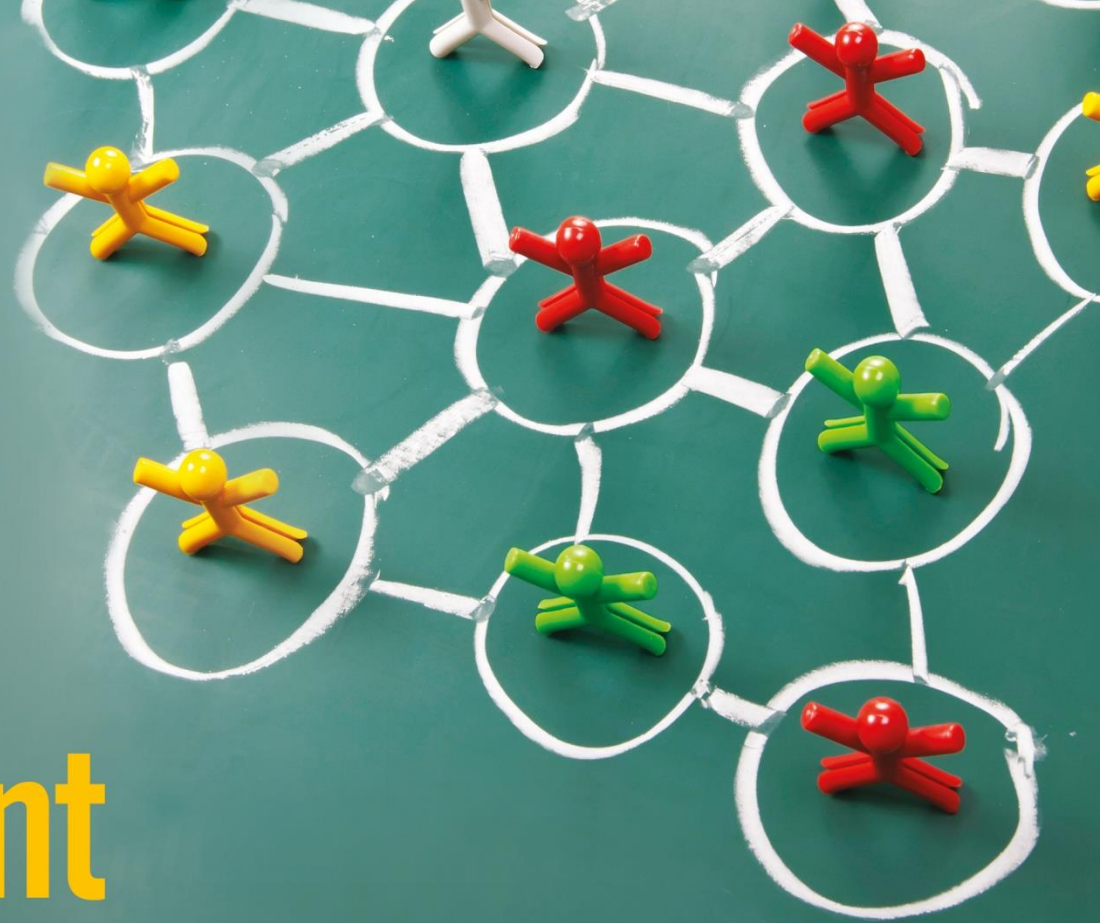


Introduction to Business Management

9TH EDITION



Ancillary material

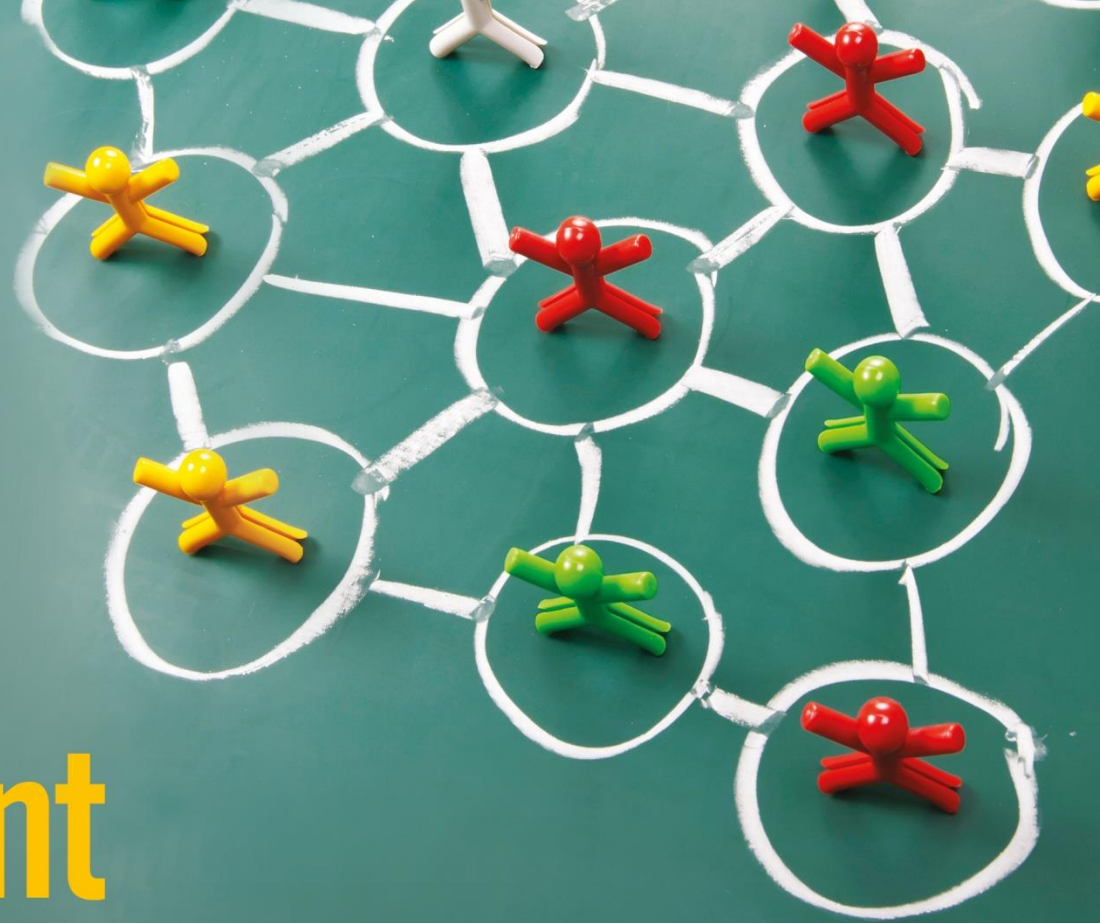
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Introduction to
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CHAPTER 1

THE BUSINESS WORLD AND
BUSINESS MANAGEMENT



Chapter content

- Introduction
- The role of business in society
- Needs and need satisfaction
- The main economic systems
- The need-satisfying institutions of the market economy
- The nature of business management
- Classifying the study material of business management
- Summary




Introduction

- Business world can be seen as a complex system
- Involves transforming resources into products and services
- Must meet the needs of people in exchange for profit



The role of business in society

- The description of a business emphasises four different elements:
 - Business involves human activities
 - Business involves production
 - Business involves exchange
 - Business involves profit.



The role of business in society (continued)

- Business world under pressure to reconsider role in the following:
 - Social responsibility
 - Affirmative action and equity
 - Business ethics
 - Consumerism
 - Environmental damage.



Needs and need satisfaction

- The multiplicity of human needs
 - Humans have a wide range of unlimited physical and psychological needs to satisfy
 - Range from the most basic need for food to the need for self esteem
- Society's limited resources:
 - Natural resources
 - Human resources
 - Capital
 - Entrepreneurship.

The needs and resources of the community

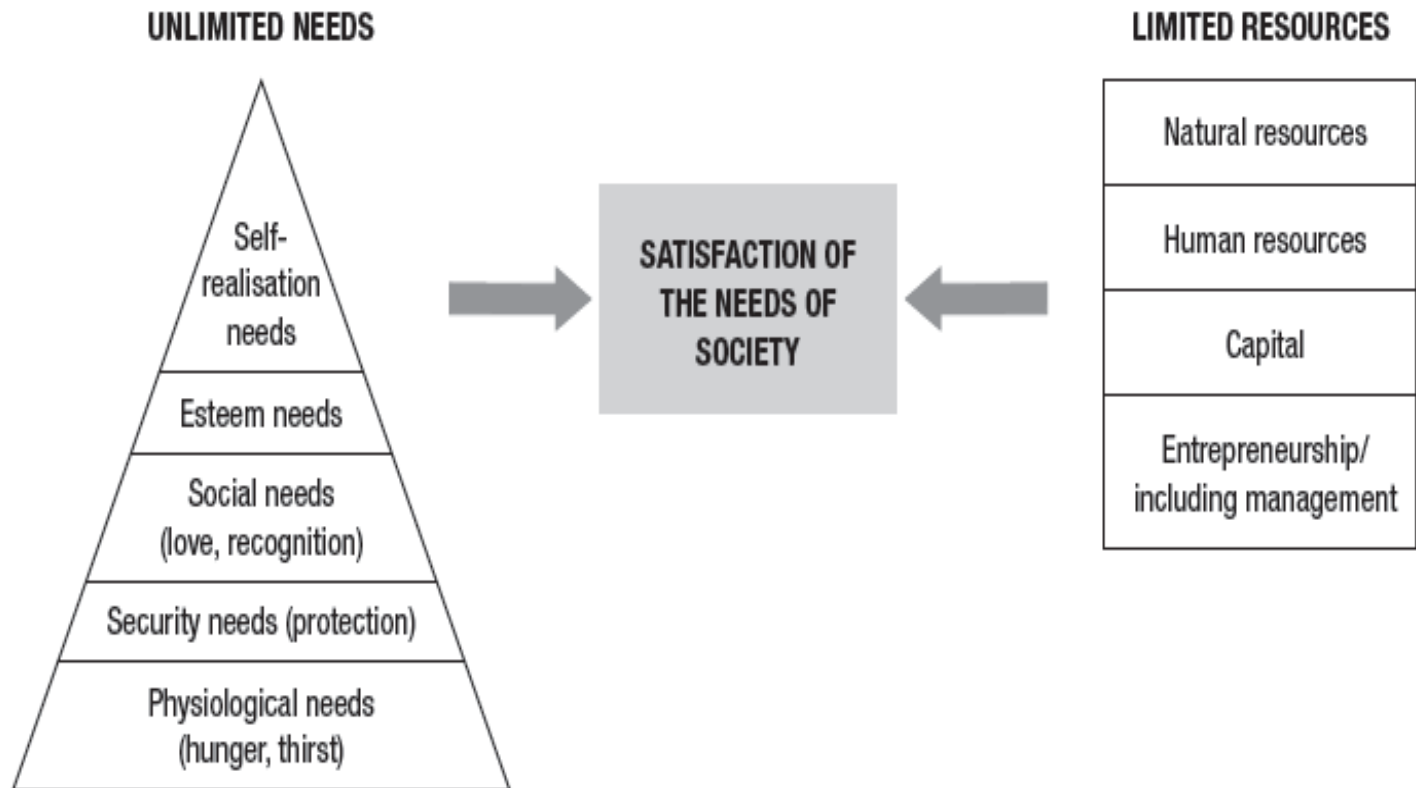


Figure 1.5: The needs and resources of the community

The cycle of need-satisfaction

- The driving force of the community is the economic motive

- Members of society decide which economic system will best satisfy their needs: a market economy, **socialism** or a **command economy** (communism)

- The economic system is subject to the economic principle

- The driving force behind entrepreneurs and their businesses in a free market is **profit**

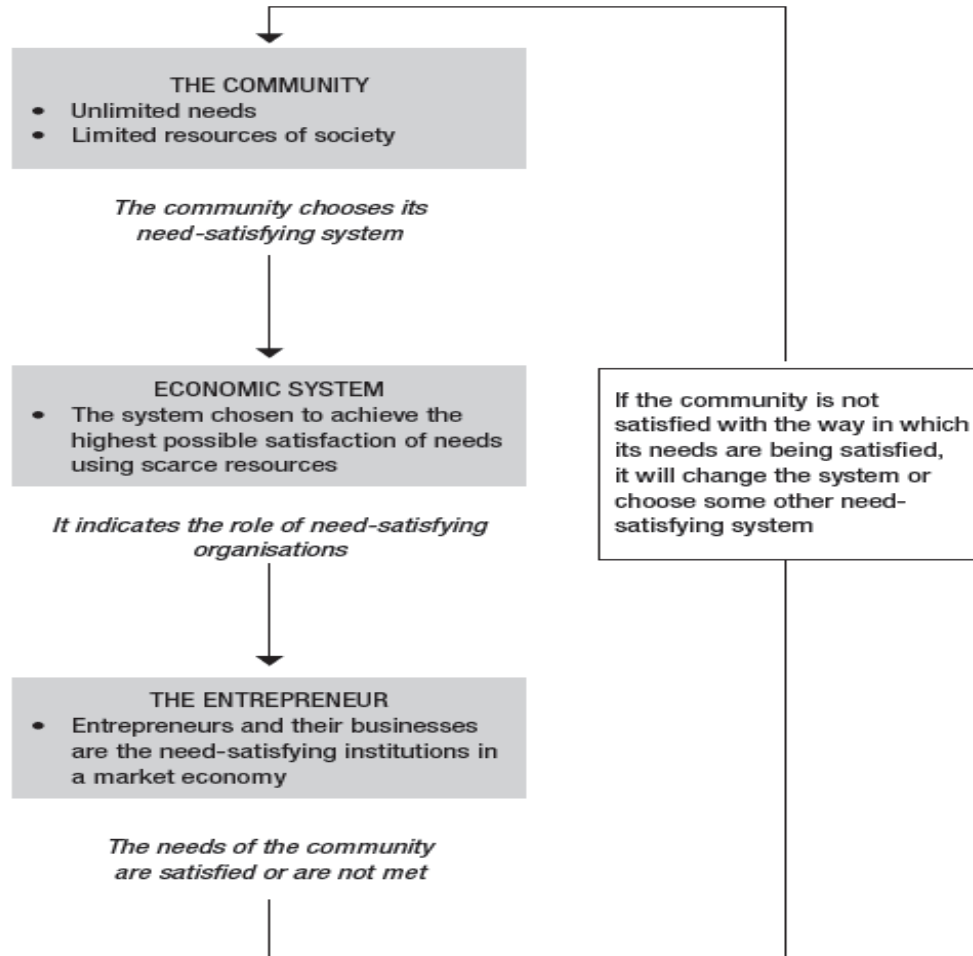


Figure 1.6: The cycle of need-satisfaction in a community



The main economic systems

- Three main systems can be identified:
 - The market economy
 - The command economy
 - Socialism.



The market economy

- Free-market economy functions on the following assumptions:
 - Members of a community may possess assets and earn profits on them
 - The allocation of resources is effected by free markets
 - Members of the community have free choice of products, services, places of residence and careers
 - The state keeps its interference in the system to a minimum.



The command economy

- Command economy functions on the following assumptions:
 - System of communal ownership in which the individual owns no property, except private domestic assets
 - Choices of products and services are limited to what the state offers
 - State decides what the needs of the community are, how and where the goods will be obtained, and in what quantities they may be used.



Socialism

- Socialism functions on the following assumptions:
 - Strategic and basic resources should belong to every member of the community
 - Businesses and consumers operate within free markets in which they are at liberty to make decisions without restriction
 - Consumers have greater freedom of choice than those under a command economy.

Comparison of main economic systems

Table 1.2: A comparison of the main economic systems

	Market economy	Socialism	Command economy
Main characteristics	<ul style="list-style-type: none"> • There is private ownership of the factors of production. • There is freedom of choice. 	<ul style="list-style-type: none"> • Basic industries are owned by the state. • There is freedom of choice. 	<ul style="list-style-type: none"> • The state owns and controls all industries and agriculture.
Markets	<ul style="list-style-type: none"> • Free competition exists. 	<ul style="list-style-type: none"> • Limited competition exists as a result of state industries. 	<ul style="list-style-type: none"> • No competition exists.
Driving force	<ul style="list-style-type: none"> • Profit and reward are achieved according to individual ability. 	<ul style="list-style-type: none"> • The profit motive is recognised. • Employees' pay in state-owned concerns is based on workers' needs. 	<ul style="list-style-type: none"> • Profit is not allowed. • Workers are urged to work for the glory of the state.
Management	<ul style="list-style-type: none"> • Private businesses create the management environment. • Managers are free to make decisions. • People are free to choose their careers. 	<ul style="list-style-type: none"> • The management environment comprises state-owned as well as private businesses. • Decisions are restricted to government policy in state-owned organisations. 	<ul style="list-style-type: none"> • The state creates the management environment. • There is no freedom of decision. • Managers are also party members.
Labour	<ul style="list-style-type: none"> • Workers are independent and free to choose their jobs and their employer. • They are free to join unions and to strike. 	<ul style="list-style-type: none"> • Workers are free to choose their jobs and their employers. • There is a limited right to strike in state organisations. 	<ul style="list-style-type: none"> • There is a limited choice of jobs. • Unions are controlled by the state.
Consumers	<ul style="list-style-type: none"> • There is freedom of choice in free markets. • Spending is only limited by income. 	<ul style="list-style-type: none"> • There is freedom of choice, except in respect of the products of state organisations, the prices and quality of which have to be accepted. 	<ul style="list-style-type: none"> • Rationing of products occurs. • There is a very limited choice. • Prices of products and income levels are set by the state.
Advantages	<ul style="list-style-type: none"> • Private initiative occurs. • There is economic freedom. 	<ul style="list-style-type: none"> • There is the possibility of full employment. • The state stabilises economic fluctuations. 	<ul style="list-style-type: none"> • The state can concentrate resources towards particular ends.
Disadvantages	<ul style="list-style-type: none"> • The environment is unstable. • Cyclical fluctuations occur. • There are high social costs. 	<ul style="list-style-type: none"> • There is little incentive in state organisations. • State organisations can be unproductive. 	<ul style="list-style-type: none"> • There is low productivity. • There is a low standard of living. • Planning is difficult or impossible.



The need-satisfying institutions of the market economy

- Business organisations
- Government organisations
- Non-profit-seeking organisations

Products and services offered in the market system

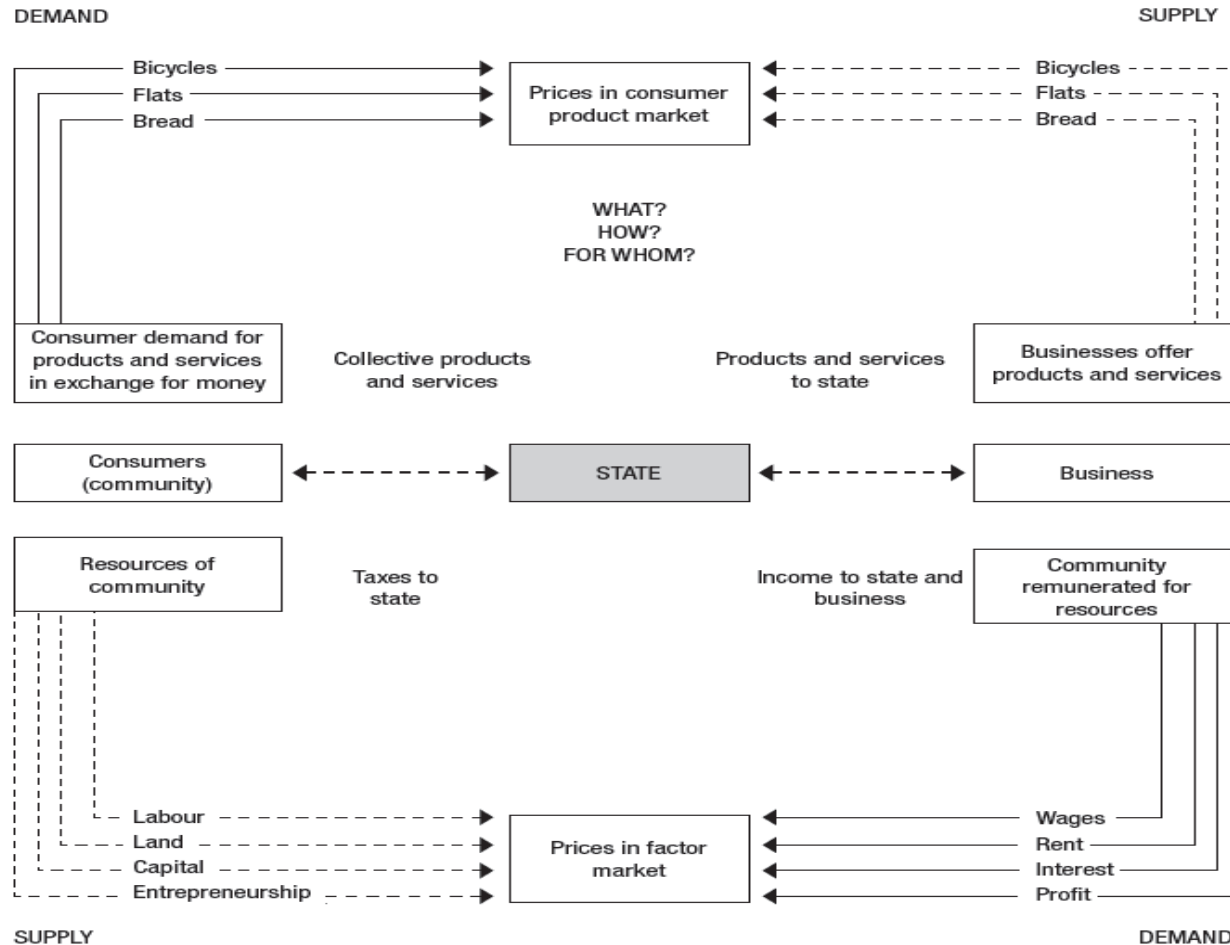



Figure 1.9: Products and services offered in the market system



The nature of business management

- Consider the following:
 - Economics and business management as related sciences
 - The purpose and task of business management
 - Is business management an independent science?
 - The interfaces between business management and other sciences.



Classifying the study material of business management

- The functional management areas of a business are:
 - General management
 - Marketing management
 - Financial management
 - Production and operations management
 - Purchasing management
 - Human resource management
 - Public relations management.



Summary

- Business organisation's role in society
- Social process that transforms a country's means of production
- Business as a component of the economic system
- Business provides for the needs of the people