

# **Introduction to Business Management**

## **Fresh Perspectives**

3rd Edition

**Sandra Musengi-Ajulu | Stephné Botha | Liezel Alsemgeest  
Karen Booyesen | Alta Bosch | Salomien Boshoff | Peter Cunningham**

Pearson South Africa (Pty) Ltd  
4th floor, Auto Atlantic Building, Corner of Hertzog Boulevard and Heerengracht, Cape Town, 8001

Offices in Johannesburg, Durban, East London, Polokwane, Bloemfontein, Rustenburg  
and Mbombela.

website: <http://za.pearson.com>

© Pearson South Africa (Pty) Ltd

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system,  
or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or  
otherwise, without the prior written permission of the copyright holder.

To request permission to reproduce or adapt any part of this publication, please visit <https://www.pearson.com/global-permission-granting.html>

First published in 2012  
Second edition 2017  
First impression 2018

This edition published in 2022  
ISBN 978-1-485-72116-1 (print)  
ISBN 978-1-485-72135-2 (epdf)

Publisher: Lucille Kemp  
Managing Editor: Wasema Mathews  
Editor: Allison Lamb  
Book design: Pearson Media Hub  
Cover design: Pearson Media Hub  
Typesetting by Robin Yule and Lizette Watkiss  
Printed by xxxx printers

In line with Pearson's editorial policy this book has been peer reviewed.

About this book  
New to this edition  
About the authors

**PART  
1**

**PART 1 Business management fundamentals**

**Chapter 1 What is business?**

- 1.1 What drives business?
- 1.2 Economic systems
- 1.3 The business environment
- 1.4 Types of organisations and where they are found
- 1.5 The sectors in industry
- 1.6 Formal and informal business
- 1.7 The management tasks

**Chapter review**

**Chapter 2 The business environment**

- 2.1 What is the business environment?
- 2.2 Environmental scanning
- 2.3 Global business environment
- 2.4 Fourth industrial Revolution (4IR)

**Chapter review**

**Chapter 3 Getting to know management**

- 3.1 What is management?
- 3.2 Who is a manager?
- 3.3 What managers do
- 3.4 Challenges facing managers today

**Chapter review**

**Chapter 4 Evolution of management theory**

- 4.1 Management theories
- 4.2 Classical management theories
- 4.3 Behavioural management theories
- 4.4 Quantitative management theories
- 4.5 Contemporary management theories

**Chapter review**

**Chapter 5 Entrepreneurship and small business management**

- 5.1 Entrepreneurs and entrepreneurship
- 5.2 Small business management
- 5.3 Pathways to business ownership
- 5.4 The importance of entrepreneurship and small business today

**Chapter review**

**Focus on employability: Preparing to manage**

## Chapter 6 Planning

- 6.1 Strategic management
- 6.2 What is planning?
- 6.3 The planning process
- 6.4 Decision-making

## Chapter 7 Organising

- 7.1 The reasons for organising
- 7.2 The organising process
- 7.3 Organisational structures
- 7.4 Organisational structures of the future

### Chapter review

## Chapter 8 Leading

- 8.1 Leadership as a management phenomenon
- 8.2 Communication in management
- 8.3 Motivating employees

## Chapter 9 Control

- 9.1 Control as a management task
- 9.2 The control process
- 9.3 The characteristics of a good control system

### Chapter review

### Focus on employability: Managing others

## Chapter 10 Human resource management

- 10.1 Human resource management in the organisation
- 10.2 The human resource management process
- 10.3 Trends in human resources management

### Chapter review

## Chapter 11 Marketing

- 11.1 Marketing definition
- 11.2 Marketing concept
- 11.3 STP process (segmentation, targeting and positioning)
- 11.4 Market research
- 11.5 Marketing mix
- 11.6 Contemporary issues in marketing

### Chapter review

## Chapter 12 Financial management

- 12.1 The place of finance in the organisation
- 12.2 Basic concepts in finance
- 12.3 The three pillars of financial management
- 12.4 The agency relationship, agency problem and agency costs
- 12.5 Financial statements
- 12.6 Managing the organisation's finances
- 12.7 Ratio analysis

### Chapter review

## Chapter 13 Operations management

- 13.1 The nature of operations management
- 13.2 What is an operations strategy?
- 13.3 An operations management system
- 13.4 The classification of the operations processes
- 13.5 Managing capacity and demand
- 13.6 Demand management and forecasting
- 13.7 Quality planning and control
- 13.8 The importance of supply chain management

### Chapter review

## Focus on employability: Managing functions of management

## PART 4 The dynamics of business management

## Chapter 14 Managing in a changing environment

- 14.1 Understanding change
- 14.2 Drivers of change
- 14.3 Impact of change drivers on work and the workplace
- 14.4 Challenges for managers managing in a changing environment
- 14.5 Strategies for managing in a changing business environment
- 14.6 Change in manager competencies

### Chapter review

## Focus on employability: Managing in a changing business environment

# About this book

The **infographics** provide a quick overview of the section before you tackle it.

## Business management fundamentals



### CHAPTER 1

# 1

#### What is business?

In this chapter, we introduce you to the purpose of a business, how business functions in different economic systems, types of

- Drivers of business
  - wants
  - needs
  - interaction with communities
  - factors of production
- Economic systems
  - traditional



### CHAPTER 2

# 2

#### The business environment

This chapter looks at the elements of the business environment and the relationship between the business and its environment.

- Business environments
  - characteristics
    - complexity and dynamism
    - relativity and uncertainty
    - multi-faceted aspects
    - far-reaching impact

**Critical reflection** provides an opportunity to solve a scenario-based problem.

?

### Critical reflection

In this chapter, you learnt about different kinds of organisations. Think of an important need in your community (for example, health or education services) and consider how business, government and non-government organisations can work together to improve the standard of living in your community. Write down your ideas in a paragraph of 100–120 words.

The **talking point** encourages discussion and debate around topical issues.



### Talking point

Have a discussion in class how the Covid-19 pandemic affected businesses and the impact of the decisions made by government in attempt to prevent the virus from spreading.

**Apply your knowledge** offers new case studies that get you to apply what has been learnt.

#### APPLY YOUR KNOWLEDGE

##### How this CFO uses managerial skills to get results

Ayanda Ntsho (CA)(SA), Group CFO for a UK-listed company that specialises in the recovery of gold and other precious metals, started his first job in 2001.

His over 20 years' work experience has seen him work in different industries such as financial services, management consulting, manufacturing, pharmaceuticals, electronics, armaments, aviation and education. Having obtained a National Diploma in Cost & Management Accounting, followed by a BCom Accounting and then an MBA, Ayanda believes that his studies have enabled him to solve business problems and generate value for the organisations by identifying and implementing cost-effective solutions.

Ayanda Ntsho's management career has seen him work in different industries that have helped him develop different managerial skills.

**Before you start** scenarios speak to the focus of the chapter and connect to your existing knowledge.

#### Before you start

Managers can be found in small or large businesses, government and not-for-profit organisations. Think about it, in a business such as Google, you find a chief executive officer (CEO) and product managers, for example, while in a small business with few employees, the owner might be the only manager responsible for making all major decisions. In government, you will likely find a minister, deputy minister, director-general, or director, among others, and in a not-for-profit organisation, such as the

The **Focus on employability** feature offers practical ideas on how to map your career path and develop specific skills.

# Focus on employability

## Preparing to manage

To lead others in any type of organisation, you need to develop relevant self-management skills. Self-management is the ability to control your emotions, thoughts, or behaviour as you work towards achieving personal or work goals. This requires you to continuously scan your environment and assess what new skills you need.

## Developing essential self-management skills

At the heart of effective self-management is **self-awareness**, which is the ability to objectively reflect on how your thoughts and emotions influence your behaviour and **self-motivation**, which is the internal drive to achieve without being influenced by others. Being mindful of these aspects of yourself will afford you the opportunity to develop these skills, and the skills below, on a daily basis.

**Expand your knowledge** provides real-world examples of the concepts you are presented with, in the chapter.

### EXPAND YOUR KNOWLEDGE

#### Spotlight on technopreneurs in Africa



GetEquity,<sup>9</sup> based in Nigeria, is an investment platform co-founded by Jude Dike, William Okafor and Temitope Ekundayo. They are on a mission to create access to the African start-up investment marketplace using blockchain technology. The trio are driven to make it easier and quicker for African start-ups to access the funding they need to get their business off the ground. You can learn more about this innovative business by going to <https://www.getequity.io>



Miishe Addy is founder and CEO of Ghana-based JetStream.<sup>10</sup> JetStream uses technology to assist businesses in managing their global supply chains. Since it began operations in 2018, JetStream now services over 20 port vendors. Find more information at their website <https://jetstreamafrica.com>



South African trio Philip Joubert, Malan Joubert and Brett Jones co-founded OfferZen<sup>11</sup> in 2015. OfferZen is a job marketplace platform for developers registered on the platform. The platform offers information about the potential role, including salary information, and critically, a career coach who works with jobseekers. OfferZen has started its expansion journey and has established a presence in the Netherlands and is looking to broaden its reach across Europe. To learn more about OfferZen, go to their website <https://www.offerzen.com>



Launched in 2019 in Egypt by co-founders Farah and Omar Emara, FreshSource<sup>12</sup> is a digital marketplace to manage the entire value chain for fresh fruit and vegetable producers. The platform was developed with the aim of reducing waste across the value chain, while increasing income for producers. Learn more by going to <https://freshsourceglobal.com/our-story/>

**Key terms** provide a clear definition close to in-text mention for your easy reference.

The **scarcity principle** says that people value something more if it is scarce.

### 1.2 Economic systems

Businesses all provide a product or service that this, income can be generated, which is done by addressing the problem of scarcity. The **scarcity principle** is an economic concept of products and services, coupled with a high demand results in a mismatch between the desired supply and demand.

**Test your knowledge** offers self-test questions to check your grasp of the subject matter.

### TEST YOUR KNOWLEDGE

1. What is a business?
2. What is management?

# New to this edition



## What is business?

- How needs translate to business
- Formal and informal businesses

## The business environment

- The direct and indirect impact of the business environment on business
- Defining characteristics of the business environment
- The benefits of understanding the business environment
- Environmental scanning
- The global business environment
- 4IR, 5IR and 6IR and the business environment

## Getting to know management

- Achieving organisational goals efficiently and effectively
- Levels of management and their primary focus
- Management skills required at the different management levels
- Managing work, workforce, and workplace changes
- Disruptive technologies and management
- Managing diversity, equity and inclusion in the workplace
- Managing increased focus on ethics, sustainability, and governance practices

## Evolution of management theory

- The evolution of management theory
- Management theories' key focus areas
- Applying each management theory in organisations today

## Entrepreneurship and small business management

- Common characteristics of successful entrepreneurs
- Intrapreneurs
- Public sector entrepreneurs
- Global entrepreneurs
- Why some businesses fail
- Pathways to business ownership
- What it takes to be an entrepreneur
- Evaluating a business idea
- Business model canvas
- Legal structures for a business
- Financing a business
- Importance of entrepreneurship and small business today

## Planning

- Decision-making tools: Marginal analysis, Decision matrix, Enterprise Resource Planning

## Organising

- Elements to consider in designing the organisational structure
- Organisational structures of the future

## Leading

- Nature of leadership
- Leadership myths and realities
- The relationship between leader, follower and situation
- Seven C's of communication

## Control

- Applying control systems to achieve organisational control: Output control, Behavioural control
- Characteristics of a good control system
- Valid performance standards: Service Level Agreements and Key Performance Indicators

## Human resource management

- Ensuring compliance to POPIA in your business

## Marketing

- Steps in the marketing process: Vision and mission, Situational analyses, Marketing strategy, Marketing mix, Implementation and control
- Consumer decision-making
- Detailed explanation and illustration of: Product life cycle, Integrated marketing communication
- Contemporary issues in marketing: Customer experience and the customer journey, social media and influencers
- S-curves

## Financial management

- The agency relationship
- The agency problem
- Agency costs
- Earnings before interest, Taxes, Depreciation, and Amortization (EBITDA)

## Operations management

- Areas of decision-making for the operations manager
- Measuring the success of operations processes
- Operations and supply chain management
- The triple bottom line of sustainability: The social, economic and environmental aspect of sustainability
- Embedding 4IR into business

## Managing in a changing environment

- Drivers of change
- Impact of change drivers on work and the workplace
- Challenges for managers managing in a changing environment
- Strategies for managing in a changing business environment: Developing a change management plan, Setting up a start-up
- Change in manager competencies

## About the authors

**Sandra Musengi-Ajulu** is a co-founder of Dajo Associates, a management consultancy, and holds a PhD in Management from Rhodes University. She leads strategic business digital transformation and research projects for private and public sector organisations. She previously lectured in Management at Rhodes University, and was a Rhodes Business School and Wits Business School Centre for Entrepreneurship research fellow. She has edited and contributed chapters in several textbooks.

**Stephné Botha** was a lecturer in the department of Business Management at the University of Johannesburg before launching her business in 2011. She has an MCom in Strategic Management and a solid teaching background. Stephné has contributed chapters to many textbooks on the subject of business management. Currently she heads up a franchise group with 30 franchisees and 4 international franchisees, and is a lecturer and student advisor at Eduexperts.

**Liezel Alsemgeest** is the Director of the School of Financial Planning Law, University of the Free State. She holds an MCom and PhD in Business Management, as well as a postgraduate diploma in Financial Planning. Dr Alsemgeest is a Certified Financial Planner professional and a member of the Financial Planning Institute of Southern Africa. She has published extensively in both national and international accredited journals on both business and personal finances and has co-authored three textbooks.

**Karen Booysen** is a lecturer in the Business Management Department, University of the Free State and holds a PhD in Entrepreneurship. Her field of interest includes entrepreneurship, social entrepreneurship and innovation management. She is also responsible for the Business Management Start-Up Initiative (BMSI), which assists students with the commercialisation of their innovations.

**Alta Bosch** is a lecturer in the department of Business Management at the University of Johannesburg. She has a Master's in Education and lectured in Operations Management for 24 years. Alta maintains an active connection with business through training activities.

**Salomien Boshoff** is a Business Management lecturer at Akademia (a private institution in South Africa). She has an MCom in Business Management and is passionate about marketing and leadership. She prepares students for the workplace; accordingly her research focuses on employability skills and customer experience management.

**Peter Cunningham** is an emeritus professor in Economic Sociology at the Nelson Mandela Metropolitan University and a SAP accredited consultant in HR and Business Warehouse. He has been involved in international HRM conferences, management training and consulting for more than 40 years and has published extensively in journals and textbooks. His research interests include SAP (HR), organisational behaviour and international higher education.

# Business management fundamentals



## CHAPTER 1

# 1

### What is business?

In this chapter, we introduce you to the purpose of a business, how business functions in different economic systems, types of organisations, economic sectors, and the distinction between formal and informal businesses.

- Drivers of business
  - wants
  - needs
  - interaction with communities
  - factors of production
- Economic systems
  - traditional
  - capitalist
  - communist
  - socialist
  - mixed
- Business environments (macro, market, micro)
- Types of organisations
  - private
  - government
  - not-for-profit
- Industry sectors (primary, secondary, tertiary)
- Formal and informal business
- Management tasks



## CHAPTER 2

# 2

### The business environment

This chapter looks at the elements of the business environment and the relationship between the business and its environment.

We also look at tools managers can use to monitor and respond to changes in the business environment.

- Business environments
  - characteristics
    - complexity and dynamism
    - relativity and uncertainty
    - multi-faceted aspects
    - far-reaching impact
    - inter-relatedness
  - benefits
  - components (micro, market and macro)
- Environmental scanning strategies
  - market research
  - expert opinion
  - SWOT analysis
  - PESTLE
  - industry analysis
- Global business environment
  - globalisation
  - Fourth Industrial Revolution



## CHAPTER 3

# 3

### Getting to know management

This chapter describes the process of management and its importance in organisations. We also look at different levels of managers, the work they do, and the skills they need to develop to manage organisations effectively in a changing business environment.

- Management
  - aim
  - importance
- Levels of management
- Responsibilities
  - managerial tasks
    - planning
    - organising
    - leading
    - controlling
  - managerial roles (interpersonal, informational, decisional)
  - management skills (conceptual, human, technical)
- Challenges
  - global environment
  - disruptive technologies
  - workforce and workplace changes
  - diversity, equity and inclusion
  - ethics, sustainability and governance



## CHAPTER 4

# 4

### Evolution of management theory

In this chapter, we look at the contributions of certain people in the development of classical, behavioural, quantitative, and contemporary management theories.

We will also learn how even though management theories have evolved, some principles or practices are still used today.

- Classical management theories
  - scientific
  - administrative
  - bureaucratic
- Behavioural management theories
  - early behaviourists
  - human relations movement
  - McGregor's Theory X and Theory Y
- Quantitative management theories
  - management science
  - operations management
- Contemporary management theories
  - systems
  - contingency
  - total quality
  - learning organisation approach



## CHAPTER 5

# 5

### Entrepreneurship and small business management

In this chapter, we introduce you to entrepreneurship, entrepreneurs, and small business management and their importance for the development of an economy. You will also learn about steps or tools you can use should you decide to start a business.

- Successful entrepreneurs
  - characteristics
  - types
- Small business management
  - benefits of business ownership
  - drawbacks of business ownership
  - reasons for failure
- Business ownership
  - entrepreneurial intention
  - business plan
  - legal structure
  - financing the business
  - operating and managing
  - buying an existing business
  - buying a franchise
- Importance of entrepreneurship in terms of
  - innovation
  - economic development
  - opportunities
  - social change

Part  
**1**

# Business management fundamentals

Business management involves planning, co-ordinating, leading and controlling business resources and activities to achieve specific organisational goals. Your studies in business management will equip you with the knowledge and skills to manage organisations effectively. This section of the book introduces you to how organisations work, the business environment, management and what managers do, how management theory has evolved, and the importance of entrepreneurship and small business development.

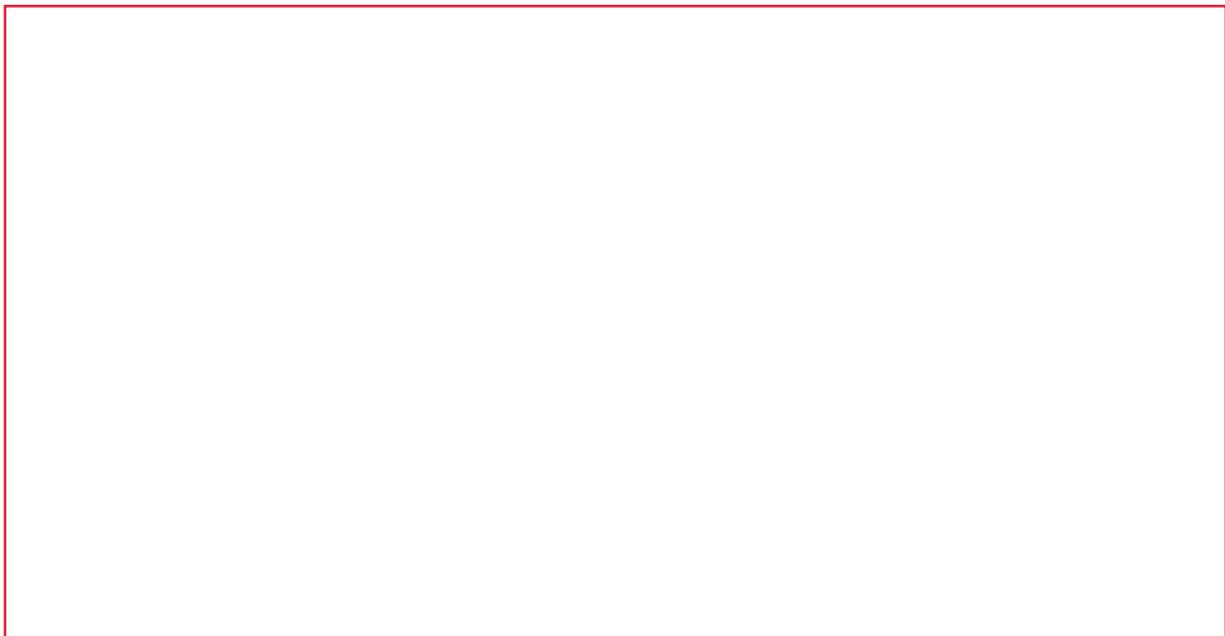
Chapter **1** What is business?

Chapter **2** The business environment

Chapter **3** Getting to know management

Chapter **4** Evolution of management theory

Chapter **5** Entrepreneurship and small business management



# What is business?

**LEARNING OUTCOMES:** *After studying this chapter, you should be able to:*

- |   |   |
|---|---|
| <p><b>1</b> understand the impact of needs and wants on society</p>                     | <p><b>5</b> describe the business environment</p>   |
| <p><b>2</b> distinguish between products and services</p>                               | <p><b>6</b> understand the different need-satisfying organisations and how they are managed</p> |
| <p><b>3</b> compare and contrast the major economic systems</p>                         | <p><b>7</b> distinguish among the three broad sectors of industry</p>                           |
| <p><b>4</b> explain the factors of production involved in making a specific product</p> | <p><b>8</b> define management and list the four management tasks.</p>                           |

## Before you start

You recently inherited a sizable sum of money from your grandmother. You decide to invest the money in your own business – an online shopping platform similar to Takealot. During the Covid-19 lockdown, you realise that there is a great market for online shopping.

You ask a friend, who is a programmer with extensive knowledge in the development of applications (apps) to join you in this venture. While planning your new business, you are grateful for the knowledge you gained as a student of Business Management. You have a clear understanding of the chain of activities that need to take place before a product or service makes its way to the consumer and find that while your friend knows almost everything there is to know about computers and programming, his knowledge of business is sorely lacking.

Most consumers usually take products and services offered in a shop or on an online platform, like you are planning, for granted. One of your major challenges will be to make sure that products ordered via your online platform reach the consumers on time. So many things can delay the process, but you are confident that your training as a Business Management student and your friend's skills will make it possible to enter the online offering market.

In this book, we will touch on all the aspects to consider when starting and managing a successful business.

# INTRODUCTION

The world of business has undergone radical and dramatic changes in the last decade. Thanks to the advances in communication and information technology, nearly anything you can imagine is only a few clicks away. Business owners can now run an office from their car! Globalisation, rapid technological advancements and many other changes present extraordinary challenges and opportunities for the present-day manager. Therefore, business and management skills are important for everybody, whether you are studying a business-oriented course or studying for a profession such as teaching, medicine or law. In this book, the goal is to examine business and management in such a way that you gain knowledge and skills that you can apply in any kind of organisation – from a one-person small business to a large corporation, a public sector organisation or a not-for-profit organisation.

This book provides a broad view of business and **business management**. By business, we mean all the actions aimed at satisfying customers' needs and wants through selling goods or providing services to them and thereby generating profit. Business also includes not-for-profit organisations that aim to satisfy a need in society. Management, on the other hand, means those actions that allow you to plan, organise, lead and control the resources of an organisation in such a way that it achieves specific objectives. The study of business is among the most popular fields of study at universities worldwide, particularly at graduate level. Business graduates are in high demand worldwide, because business touches on pretty much every aspect of modern human society. *Business Tech* reports that latest research shows that middle management is currently one of the most in-demand occupational fields in the job market.<sup>1</sup>

The subject Business Management includes all the activities that are related to the management of all types of business organisations. We can therefore say that business management explains the nature of the enterprise, how it should be established and how to manage it. The person in charge of managing a large business is most often referred to as the chief executive officer (CEO) or the managing director (MD). You could think of yourself as the CEO in charge of managing your own life. You have to interact with other people, and this is similar to a business having to deal with people, whether as customers or employees. You have to make all kinds of decisions in a challenging world, which is the same as the activity of management. Therefore, many of the things you do in your daily life are management tasks.

Thinking of yourself in this way may just make the management skills you will learn about easier to understand. These skills can be applied to any kind of business. Whether you are the CEO of a large business, the owner of a small business or a music teacher who wants to start a private music school, you need business management skills. The management principles we discuss in this book will give you a much clearer understanding of what these skills are.

In this chapter, we will begin by giving you a brief overview of what drives business. Most of what we will introduce here will be dealt with in detail later in the book.

**Business management** applies and combines all known management tools to obtain the expected results for the achievement of the goals set out at the beginning of a particular business.

## 1.1 What drives business?

People have needs and wants that businesses try to satisfy. A need is something essential that all of us cannot live without, for example food and water. A want is something that you would like to have. Think about the things or experiences that you want; it could be a new smartphone or to travel overseas. Successful businesses successfully manage to satisfy people's needs and wants.

### Understanding needs and wants

In life and business, the idea of survival is real, meaning a person would die without their **needs** being met or a business would fail if basic conditions are not met.

**Wants**, however, are those items that people would like to have, that they may, or may not, be able to obtain. Want items normally increase your quality of life, but are not essential for living, for example a tumble dryer, an iPad or Xbox. You and everyone around you have many needs and wants.

For this reason, most people have to work in order to generate an income that will allow them to purchase need and want-satisfying goods or services. Remember that, from a business perspective, the ability to satisfy these needs or wants is key to making a profit. If a business can identify the consumers' wants or needs, and if it can supply a product or service that can satisfy those wants or needs, it is in a position to make a profit.

The business world is a system of people and businesses that produce and sell goods and services to satisfy needs and wants. These goods and services can be tangible and intangible. *Tangible products* are goods that can be seen or touched. Typical examples include your cellphone, the chair you are sitting on or a printed book. An *intangible product* is something that cannot be touched, but which people buy to satisfy needs or wants. We refer to such intangible products as services. We can define a **service** as any activity or benefit that is offered to a person, which is essentially intangible and does not result in the ownership of a physical object. Typical examples of intangible products include a new hairstyle, a savings account at the bank or using Uber to get somewhere. You cannot, for example, buy a new hairstyle in a box. The Uber vehicle may be tangible, but you using the service is intangible. A service, therefore, is not an object, but a process.

As we have seen, needs are the things a person depends on to survive. Needs vary from the very basic and simple to the very complex and intricate. There are various theories explaining the needs of people, and you might come across some of them during your studies. It is very important that businesses understand the needs of their customers. This will often provide them with the **competitive edge** over their competitors.

**Needs** are a condition or situation in which something must be supplied in order for a certain condition to be maintained or a desired state to be achieved.

**Wants** refer to something that is good to have, but not essential for survival.

**Services** are the non-physical, intangible parts of our economy, as opposed to goods, which we can touch or handle.

**Competitive edge** refers to a piece of information, a skill, a process, a product or a resource that competitors, usually business ones, don't have and that gives the business an advantage.

Let's look at a well-known theory of needs.

The American psychologist Abraham H. Maslow explained human needs by means of his hierarchy of needs theory, in his book *Motivation and Personality*, published in 1954. As a result of his research into human behaviour, Maslow proposed that people have five kinds of needs, which occur in a hierarchy. When one need is fulfilled, a person seeks to fulfil the next one, and so on. The earliest and most widespread version of Maslow's hierarchy of needs includes five motivational needs, most often depicted as hierarchical levels within a pyramid, illustrated in Figure 1.1. His theory remains valid today for understanding human motivation, management education and personal development. Notice in Figure 1.1 how the five needs develop from the bottom to the top of the hierarchy, from the most basic, physical and essential, to the most advanced, psychological and self-developmental.

Maslow's original five stage model of needs are identified as follows:

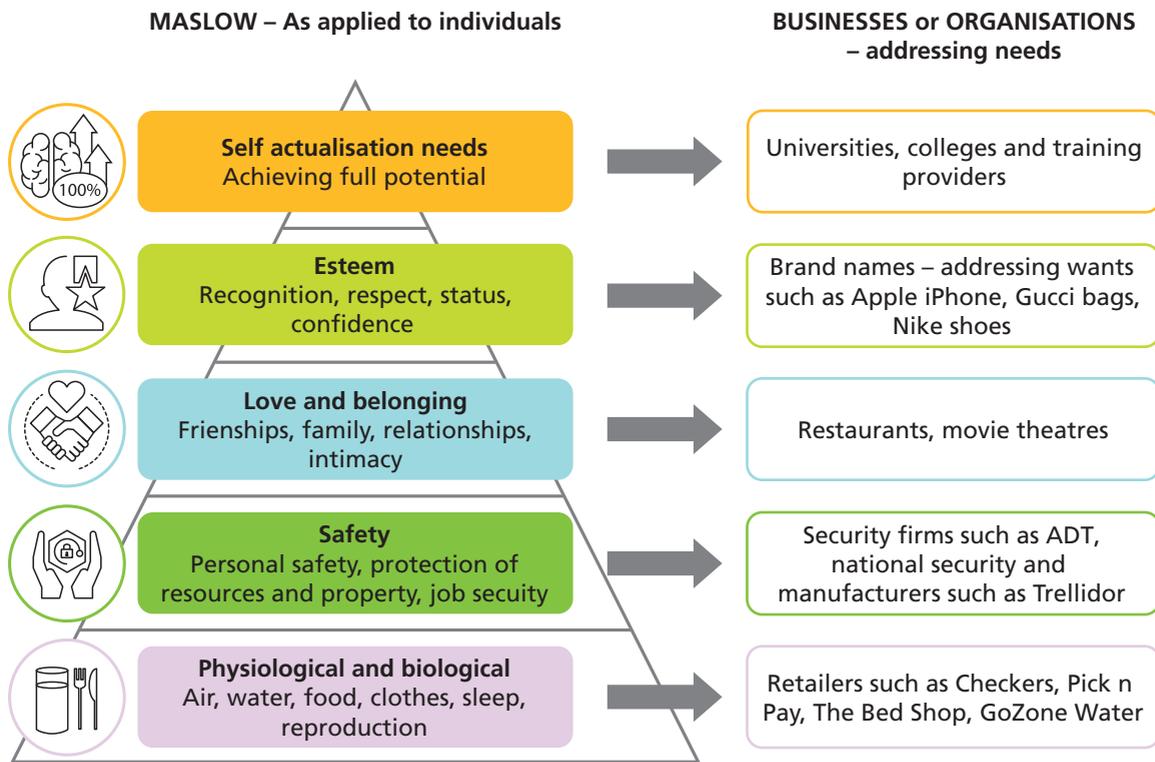
- **Physiological needs** are also known as basic needs, for example air, food, drink, shelter, warmth and sleep. These are necessary for our survival.
- **Security needs** refer to the need for protection against danger, for example personal safety, protection of resources and property, job security, order, law, stability and freedom from fear.
- **Social needs**, or more commonly known as love and belongingness needs, refer to the need for social acceptance, for example friendship, intimacy, affection and love from work colleagues, family, friends and romantic relationships.
- **Esteem needs** refer to the need to be recognised, respected and appreciated by others, for example achievement, mastery, independence, status, dominance, prestige, self-respect and respect from others.
- **Self-actualisation** refers to the need to better yourself or the need to be your true self. Maslow refers to this as realising personal potential, self-fulfilment, seeking personal growth and peak experiences.

It is important to note that Maslow's five stage model has been expanded to include cognitive, aesthetic and transcendence needs:

- **Cognitive needs** refer to the need for knowledge and understanding, our inborn need to satisfy curiosity, to explore, and the need for meaning and predictability.
- **Aesthetic needs** refer to the need to appreciate beauty, balance and form.
- **Transcendence needs** refer to the need to help others to achieve self-actualisation.

Maslow's theory helps us to understand that because people have needs, businesses have opportunities.

**FIGURE 1.1** Needs and the business



To summarise Maslow's theory, human beings have many different needs. These needs are interconnected, and they are very important for people's health and happiness. Needs are not equal. According to Maslow, people will always strive first to satisfy the most important or basic needs that are necessary for their survival. Only after those have been satisfied will they move on to satisfying other needs.

Let's consider what Maslow's theory means to us in the context of business.

## EXPAND YOUR KNOWLEDGE

### Exploring needs

There are many reasons why it is important for businesses to understand the different human needs. A business has to be sure that there is a need for the products it sells or the services it offers. Then the business has to make sure that consumers will spend their money on its products and services. When a business owner has identified a need correctly and developed a product or service that satisfies it, only then will the business be able to make a profit.

For example, Netflorist was one of SA's first online retailers, launched on Valentine's Day in 1999 by Ryan Bacher, Lawrence Brick and Jonathan Hacker. The experiment in e-commerce generated R30 000 in turnover in the first month and they realised there was a need for an online floral and gifting service. However, in March 2020 the Covid-19 pandemic and Level-5 lockdown meant all retailers selling non-essential goods had to stop trading. Bacher made the decision to move to selling an essential product – fruit and vegetables, and later groceries. This ensured Netflorist's survival until the restrictions were lifted.

*Source:* City Press. 2016. Online business can be big. Just create a niche, solve a problem. Available from <https://www.news24.com/citypress/business/online-business-can-be-big-just-create-a-niche-solve-a-problem-20160610>; BizCommunity. 2020. How Neflorist pivoted to essential goods in 36 hours. Available from <https://www.bizcommunity.com/Article/196/394/204717.html> Accessed 18 August 2022.

Mugg & Bean started in the early 90s after Ben Filmalter and his wife Judi took a trip to Chicago. There they discovered a unique little coffee shop that prided itself on its spirit of generosity. Inspired by this, Ben came back home and opened the first Mugg & Bean in 1996 at the V&A Waterfront in Cape Town. Ben wanted more than just a restaurant or coffee shop. He wanted a place where people arrived as customers and left as friends, where they could unwind, relax and reconnect. This seed of generosity sprouted and has continued to grow for more than 20 years. There are now over 200 Mugg & Bean restaurants nationwide and you can also find a Mugg & Bean in Kenya, Botswana and the United Arab Emirates.

*Source:* Mugg & Bean. 2022. About us. Available from <https://muggandbean.co.za/about-us/#:~:text=It%20all%20start-ed%20in%20the,V%26A%20Waterfront%20in%20Cape%20Town> Accessed 23 March 2022.

Let's look at the satisfaction of needs in a different way. Suppose you are thirsty. Do you really need a tin of Coca-Cola® to satisfy your need? No – water, which is free, would also have satisfied that need. For that reason, a business that provides soft drinks would have to get people interested enough to want to buy its products or use its services. It does this through marketing. We will take a closer look at marketing in Chapter 11.

You are familiar with advertisements on TV, in newspapers or on the radio. Advertising often works by getting the viewer or listener to believe that a particular product will satisfy several needs at the same time, for example social and self-esteem needs. The next time you see an advertisement created by Coca-Cola®, consider the needs that the product aims to fulfill. Is it only the need to quench your thirst? What about the social need to spend time with others and have fun?

If you think about it, there are many businesses satisfying the need for food, but the successful businesses have come up with creative ways of doing so. Think about Woolworths Food. They aim to provide high-quality, home-cooked food for a particular type of customer. These customers are interested in unusual and creatively prepared ready-meals, and are willing to pay higher prices for them. If you were having a dinner party and had no time to cook, you could probably source your entire menu from Woolworths Food. By contrast, if your choice was a cheap and quick meal, you could find this at a fast-food outlet such as ChesaNyama, selling flamed-grilled foods from an open-plan kitchen. The basic need – the need to eat – is the same in both cases, but each business finds its own creative way to satisfy customers' needs.

A **community** is commonly considered a social unit who share something in common, such as norms, values, identity, and often a sense of place in a given geographical area.

## How businesses interact with communities

The interaction between businesses and **communities** can benefit both parties in the following ways:

- Business owners do not always manage their own businesses. They often employ managers and workers to assist them. For their time and effort, the managers and workers are paid salaries and wages. Therefore, businesses that employ workers provide the income that pays for the satisfaction of workers' needs and wants.
- In addition to providing jobs and income for people, a business often helps to improve the infrastructure in a community. This is partly through the taxes that businesses pay to local government, but local government is also sensitive to the needs of business because of its importance to the economy. Infrastructure consists of the services and facilities that a business or organisation cannot do without, for example electricity supply, water supply, roads and communication networks.
- Businesses also assist communities because they recognise that they are part of the community and are dependent on the support of the members of the community. As a result, it has become good business practice for businesses to be involved with the broader needs of the community that buys its products and uses its services. Businesses often support the local schools, universities or even national educational television channels through donations of money or products. Businesses may provide bursaries for students.

Sometimes, the presence of a business also has negative side effects, for example when it causes noise, or when it pollutes the environment with harmful chemicals. Previously, many businesses would not have done anything about this, but today businesses are aware of the problems they can cause and many take great care to address the effects they can have on people and the environment. For example, mining groups that have disfigured the land through their mining operations have plans to conceal the scarring of the countryside. One mining company grows proteas for export and another has started an indigenous planting programme. Both programmes are aimed at restoring the countryside.

The law can hold businesses responsible for polluting the environment. Through positive involvement in the community, preventing pollution and protecting the environment, a business contributes to the greater well-being of the community. The requirement of a business enterprise to care about the welfare of the society in which it operates is called its corporate social responsibility. We will take a closer look at this topic in Chapter 3: Getting to know management.

## Managing the factors of production

Businesses aim to create goods and services that will satisfy people's needs and wants. But to produce a product, the business needs resources. Four basic sets of resources are used in the production process. We call them the **factors of production**. They are:

1. natural resources
2. capital
3. labour
4. entrepreneurship.

### Natural resources

The term **natural resource**, also commonly referred to as land, applies to all resources taken from nature and includes all resources found in the earth, sea and air. The business uses these resources to provide goods or services. The problem with natural resources is that they cannot be increased. Water and coal are good examples – we use water and coal to make many different products, but we cannot make or reproduce these resources. Note, however, that over the centuries, humans have developed ways of reproducing and supplying resources that once were purely naturally occurring. Examples are crop and stock farming, timber plantations and fish hatcheries.

### Capital

**Capital** refers to both money and assets. Many people make the mistake of thinking that capital is only money. This is not the case. Capital includes other assets in the business such as equipment, buildings, vehicles and computers. We can even talk of human capital, that is, the intellect, knowledge, experience, attitudes, skills and values of the people who work for a business. These capital items are used to produce something that consumers need. A key characteristic of capital is that it has a relatively long lifespan and can be used over and over.

### Labour

**Labour** refers to employees or human resources, that is, the people who do the mental and physical work in the production process. Every organisation has its special human resource needs. It would be quite easy to train a cleaner or a driver, as these jobs are relatively simple to do, but the availability of forensic auditors will be much more limited as it takes years to train them. Later in the chapter we will look at the way in which the external environment can influence the availability of human resources.

**Factors of production** is an economic term that describes the inputs used in the production of goods or services whether to make profit or for a not-for-profit organisation. These include any resource needed for the creation of a product or service.

**Natural resource** is a resource that is found in the environment and can develop without the intervention of humans.

**Capital** refers to cash or equipment used to generate income in a business. It is a passive factor of production. It needs labour to be productive.

**Labour** is an active factor of production. It is the factor that starts production. Natural resources and capital alone cannot start production, they are passive factors. They need the active factor of production, labour, to be productive themselves.

### Entrepreneurship

is the action that combines all the factors of production. It is a drive to develop an idea into a business.

### Entrepreneurs

are people who organise all the factors of production and are willing to undertake any risk that arises in the process.



## Entrepreneurship

Somebody needs to combine the above factors of production in such a way that something useful can be produced. This is why the fourth factor of production is so important. **Entrepreneurship** refers to the process of combining or co-ordinating the other factors of production. It is undertaken by people with drive and creative ideas (**entrepreneurs**). We will spend considerable time on entrepreneurship in Chapter 5: Entrepreneurship and small business management.

### Talking point

Have a quick discussion with the person sitting next to you about the difference between an entrepreneur and entrepreneurship.

## EXPAND YOUR KNOWLEDGE

### The factors of production explained

You may have at some point in your life been part of an entrepreneurship day at your school where you could buy homemade eats and drinks. Perhaps you even had your own sweet stand with the aim of making a profit! In order to make a profit, you would have needed economic inputs, better known as factors of production. Let's look at examples. Tsonga is a leather manufacturer based on the Midlands Meander (situated between Pietermaritzburg and the majestic Drakensberg mountain range in KwaZulu-Natal), which creates beautiful, handstitched leather goods. Tsonga values community upliftment, with all of their products handcrafted by men and women from the surrounding rural communities. Tsonga produces high-quality women's and men's footwear, handbags, overnight bags and accessories such as purses and wallets.

Let's look at how the factors of production feature in Tsonga.

1. **Land.** The physical place where economic activity takes place is the manufacturing plant of Tsonga. The natural resources used are the various types of leather.
2. **Labour.** The men and women from the surrounding rural communities involved in making the shoes, bags and accessories.
3. **Capital.** Money and equipment used in the manufacturing plant.
4. **Entrepreneurship.** The entrepreneur is the person who combines the other factors of production – land, labour and capital – to earn a profit by operating the Tsonga business.

Sometimes, businesses don't sell an actual product, but rather offer a service to the client. Keller Williams Realty brings sellers and buyers of homes to each other. Agents in the Keller Williams network help homeowners who want to sell their houses to find a suitable buyer for the property.

Let's look at how the factors of production feature in Keller Williams Realty.

1. **Land.** Each Keller Williams Branch has offices to conduct business. They do not sell a real tangible thing – the property owner does. The KW agent provides a service where it links a person wanting to sell a house or piece of land, with a person wanting to buy property. For that they receive commission.
2. **Labour.** The estate agent finding the listing and linking the buyer with the seller.
3. **Capital.** Money and equipment used in the Keller Williams office.
4. **Entrepreneurship.** The entrepreneur is the person who combines the other factors of production – land, labour and capital – to earn a profit by operating the Keller Williams business.

Source: Tsonga. 2022. About us. Available from <https://www.tsonga.com/pages/about-us> Accessed 5 April 2022; KWSouthernAfrica. About us. Available from <https://www.kwsouthafrica.co.za/> Accessed 22 May 2022.

The problem is that factors of production are limited and scarce. In other words, we have unlimited needs, which we have to satisfy with limited resources. Think about your pocket money for a moment. Let's say you get R1 200 per month. From this you may need R400 for transport and R300 to top up your cellphone airtime and data. This leaves you with R500 to buy clothes, food and something nice to eat from the cafeteria. Do you have enough money for everything you want to do in a month?

Suppose your friend asks you to join him for a movie on the first Friday of the month and you spend R250 at the movies. That leaves you with only R250 for the rest of the month! Because of this, we learn to satisfy as many of our needs as possible with as little as possible of our own resources. We call this the **economic principle**. The economic principle states that we strive for maximum outputs with minimum inputs. You could ask your friend to stream or download a movie at home rather than going to the movies. The data necessary for this would be much cheaper than going to the movies!

The **economic principle** is satisfying as many needs as possible with as little resources as possible.

### Activity 1.1

1. Write one or two paragraphs explaining why the needs and wants of people are important to business.
2. Describe three ways in which businesses affect communities.
3. Identify how the factors of production were applied in each of the following businesses or products:
  - a. Virgin Active
  - b. Takealot
  - c. Seattle Coffee Co. café latte
  - d. a pair of Fila sneakers

The **scarcity principle** says that people value something more if it is scarce.

## 1.2 Economic systems

Businesses all provide a product or service that satisfies a specific need. Through this, income can be generated, which basically keeps the economy alive. This is done by addressing the problem of scarcity. All nations are faced with the problem of scarcity. The **scarcity principle** is an economic principle where a limited supply of products and services, coupled with a high demand for those goods and services, results in a mismatch between the desired supply and demand equilibrium.

Governments and industries must allocate their scarce resources in order to meet their unlimited needs. These are the questions these bodies must ask when dealing with scarcity and efficiently allocating their resources. They are:

- What should we produce?
- How should we produce it?
- For whom should we produce it?

The answers to these questions will be based on a particular country's needs. The economic system that a country chooses determines how the country organises its resources and what opportunities for business it provides. The chosen economic system of a country also determines the way in which the needs and wants of the people of that country are provided for. There are various economic systems practised in the world. We will take a look at five systems:

1. the traditional system
2. the capitalist system
3. the communist system
4. the socialist system
5. the mixed system.

### The traditional system

In a **traditional economic system**, people use the resources they have available to them to produce what they need. Often, they produce what they've always produced, what their parents have always produced, and what their grandparents before them have produced. In a traditional economic system, people plant and harvest their own food on their own land. The ways they produce garments and shelter are almost exactly the same as those used in the past. Tradition decides what people do for a living and how their work is performed. Typically, they produce only as much as they need for themselves. Sometimes, they produce enough to make a profit by trading, selling or using the barter system. The economic duties of men, women, children and the elderly differ from culture to culture. Although traditional economies existed primarily in Europe during the Middle Ages, many indigenous people from rural settings in low-income countries still operate a traditional economy today.

The **traditional economic system** is an economic system in which traditions, customs and beliefs help shape the goods and services the economy produces and distributes.

## The capitalist or free market system

A **capitalist system** is also known as the free market or private enterprise system. The underpinning beliefs of this system are based on competition in the marketplace and private ownership of the factors of production (resources). In pure capitalism, all the factors of production are owned privately, and the government does not try to set prices or co-ordinate economic activity. This you will find is the complete opposite of the communist economy – explained in the next section – in that the government does not control the major segment of the economy, such as vital resources and valuable goods and services. In the capitalist economy, industries and households act in self-interest and determine how resources will be allocated, what kind of goods will be produced or bought. In other words, it is a system where a country's economic decisions are the result of individual decisions by buyers and sellers in the marketplace.

As the name suggests, it literally means that anybody is free to enter the business market. There are very little restrictions as to who may run a business, sell goods or deliver services, and who may trade or where they may trade. Countries with a free market economy will therefore have many different kinds of businesses. The basis of the free market system is to allow entrepreneurs to start businesses that satisfy needs and wants, and therefore it is also known as a market-oriented system. These entrepreneurs know they take financial and business risks. However, in exchange for their risks, they could be rewarded with good income and profits.

A capitalist system guarantees certain economic rights:

- the right to own property
- the right to make a profit
- the right to make free choices
- the right to compete.

One of the essential principles in a free market economy is competition among businesses to sell the same product or service to the same consumers. They try to persuade customers that their products are the best. Competition means that a business can make or sell the same goods at a cheaper price or at a similar price to other businesses. Businesses can compete with each other by charging lower prices or by offering a better product. In doing this, the business hopes to take customers away from other businesses. In South Africa, the Competition Act 89 of 1998 ensures that there is free competition and that big companies do not have an unfair advantage over smaller companies. Nowhere in the world do we find a perfect free market system.

The **capitalist** or free market system is an economic system where supply and demand regulate the economy, rather than government intervention.

The **communist economic system** is an economic system that seeks to create a classless society in which the major means of production, such as mines and factories, are owned and controlled by the government.

## The communist system

The **communist economic system** is the complete opposite of capitalism. In a communist economic system, the government owns virtually all resources and controls all markets. This economic system is directed by a single centralised power, such as government, which controls all the activities of this type of economic system. The government has the power to take all decisions regarding the country's economy.

In a communist economic system, the main decision-maker about how resources are used is the government. No individual may *independently* decide to start and run any type of business. The government decides what goods and services need to be produced and then it takes ownership of these goods and services before selling it.

In a communist system, only the government will plan how the economy will operate. The government decides who may operate in the country, which types of organisations will be allowed and who will supply them. Mostly, the government owns everything from the industrial processes to equipment. Therefore, the communist system is based on central government control of every aspect of the economy. Economic decision-making lies in the government, rather than the competitive forces in the marketplace. Government decides what will be produced, where it will be produced, how much will be produced, where the raw materials and supplies will come from, who will get the output and what the prices will be.

Initially, countries that chose communism, such as the former Soviet Union and China, believed that by following the principles of communism, it would raise the standard of living of the citizens of the country. Reality told a different story. The tight controls over the economy and people's lives, such as the careers they could choose, places they could work, and choices of what they could buy, led to lower productivity. Workers had no reason to excel at what they were doing, because there were no rewards for excellence. Errors in planning and resource allocation led to shortages of even basic items, which led to poverty, rather than increased standards of living. Today, countries like China, Cuba and North Korea are practical examples of a communist economic system.

The **socialist system** is an economic system where individuals own their own human capital and the government owns most other, non-human resources. Most of the major factors of production are owned by the state. Land, factories, and major machinery are publicly owned.

## The socialist system

The **socialist system** is an economic system in which the basic industries are owned by the government or by the private sector with strong government control. Both government and private individuals can own businesses. A socialist state controls critical, large-scale industries such as transportation, communications, and utilities. Smaller businesses and those considered less critical, such as retail, may be privately owned. Countries following a socialist system typically provide its people with a higher level of services, such as health care and unemployment benefits, than do most capitalist countries. As a result, taxes and unemployment may also be higher in socialist countries. Examples of countries that follow a socialist economic system would be Portugal, Zambia and Angola.

## EXPAND YOUR KNOWLEDGE

### What is socialism?

Socialism encompasses a broader spectrum of political beliefs but shares communism's emphasis on a fair (if not necessarily equal) distribution of wealth among citizens, as well as public ownership of the means of production (though not necessarily all of them). In that sense, socialist programmes and policies can exist alongside capitalism in a society, which is less likely in a true communist system.

*Source:* Investopedia. Communism vs Socialism: What's the Difference? Available from <https://www.investopedia.com/ask/answers/100214/what-difference-between-communism-and-socialism.asp> Accessed July 2022.

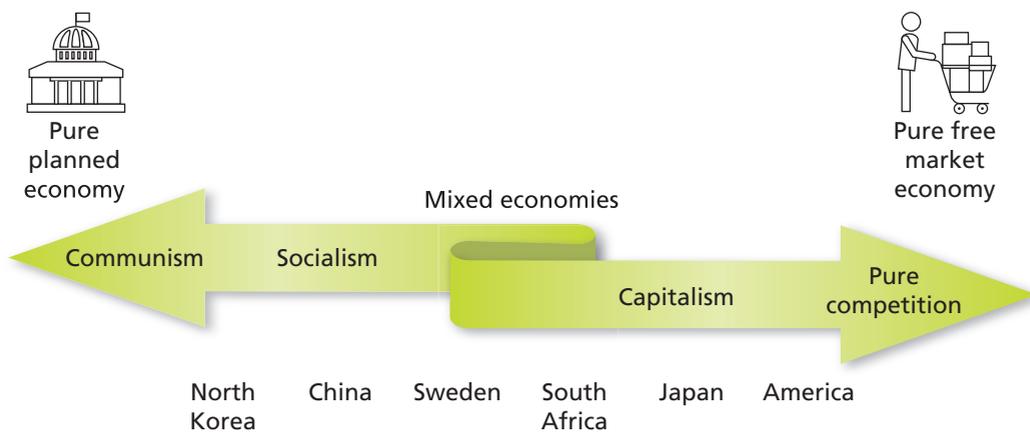
## The mixed economic system

Pure capitalism and communism are on two opposite poles of the spectrum and are not really found anywhere in the world. Most economies will fall somewhere between the two. The American economy shows elements of pure capitalism, but it also makes use of government policies to promote economic stability and growth in the country. They have many policies aimed at uplifting the poor, the unemployed, the elderly and the disabled.

When we have a country following most of the principles of capitalism, but also have intervention by government through the implementation of policies, we can say that they follow a **mixed economic system**.

The **mixed economic system** is a system that combines aspects of both capitalism and socialism.

**FIGURE 1.2** Countries and their economic systems



### Talking point

Do you think South Africa leans more towards a free market system or a socialist economic system? Chat to your study group about this and report back to your lecturer.

**FIGURE 1.3**

**An overview of the economic systems**

## Economic systems

### Traditional economy



- Tradition decides what people do for a living and how their work is performed.
- People use the resources they have available to them to produce what they need.
- This type of economy is characterised predominantly by indigenous people from rural settings in low-income countries.

### Free market economy



- Industries and households act in self-interest and determine how resources will be allocated, and what kind of goods will be produced or brought.
- We mostly refer to this system as the free market system or capitalism.
- The free market system literally means that anybody is free to enter the business market.

### Communist economy



- This system is the complete opposite of capitalism.
- The government owns virtually all resources and controls markets.
- This economic system is directed by a single centralised power that controls all the activities of this type of economic system.

### Socialist economy



- The basic industries are owned by the government or by the private sector with strong government control.
- A socialist state controls critical, large-scale industries such as transportation, communication and utilities.
- Smaller businesses and those considered less critical, such as retail, may be privately owned.

### Mixed economy



- This follows most of the principles of capitalism, but there is also intervention by government through the implementation of policies.
- It combines aspects of both capitalism and socialism.
- This system tries to achieve social goals, such as income redistribution and retirement pensions, which may not be goals in purely capitalist systems.

Table 1.1 compares details of the four most prominent economic systems in the world today.

<b>Table 1.1</b>		<b>Comparison of the four major economic systems</b>			
	<b>Capitalism</b>	<b>Communism</b>	<b>Socialism</b>	<b>Mixed system</b>	
<b>Ownership of factors of production</b>	Private individuals own the factors of production. In other words, businesses are privately owned with very little government intervention.	Government owns all the resources. Industries and businesses belong to the state.	Government owns industries, but private ownership of resources is allowed. Usually have very high taxation.	Private ownership of land and businesses but government controls some of the industries. Mixed economies face the challenge of finding the right balance between free markets and government control.	
<b>Profit</b>	Everyone has a right to make a profit.	Individuals have no motivation to make a profit because the government owns everything.	Only people with their own businesses may make a profit.	Individuals have a right to profit if they stay within the parameters set by government.	
<b>Consumers</b>	People decide for themselves what they want to buy and what they are prepared to pay for it.	Government decides on the prices of products and services, leaving consumers with no choice.	Consumers have freedom of choice except for the products of government-owned enterprises, whose prices are fixed.	Private investment, freedom to buy, sell, and profit, combined with economic planning by the state, including significant regulations, taxes, tariffs, and state-directed investment.	
<b>Competition</b>	There is free competition among enterprises.	There is no competition because everything belongs to the government.	Private enterprises compete with each other, but there is no competition among government-owned enterprises.	It allows competition between producers with regulations in place to protect society as a whole.	
<b>Management</b>	Managers of private enterprises can decide what to produce and how to produce it.	Government makes all decisions regarding what to produce.	Managers can only make production decisions in privately owned businesses.	Managers of private enterprises can decide what to produce and how to produce it, provided that they stay within the parameters set by government.	
<b>Land ownership</b>	Individuals may own land.	Government owns all the land.	Land is mostly owned by government.	Individuals may own land.	

	<b>Capitalism</b>	<b>Communism</b>	<b>Socialism</b>	<b>Mixed system</b>
<b>Prices</b>	Prices of goods and services are determined by demand and supply.	Government determines all prices of goods and services.	Government determines prices of goods produced in government-owned industries. Goods produced in private enterprises will be priced according to demand and supply.	Significant regulations and price controls by government.
<b>Labour</b>	Individuals have free choice as to where they want to work and what they want to do.	Government determines all employment opportunities.	Individuals have free choice, but the government influences job opportunities.	Individuals have free choice as to where they want to work and what they want to do.
<b>Advantages</b>	People have freedom of choice, which promotes private initiative.	Government is in control of all resources and can ideally channel them to where they are needed.	There are good employment opportunities as the government focuses on limiting economic fluctuations.	Businesses, as well as consumers have freedoms while government is actively involved and provides support.
<b>Disadvantages</b>	There are many economic fluctuations that make the business environment unstable.	There is low motivation, low productivity and low standards of living.	There are unproductive government-owned industries because of limited individual freedom.	High tax rates. Governments are funded through taxation and the revenues earned from state-owned companies. Individuals and companies are taxed at various levels based on the amount of income received.

To wrap up this section, remember that each country's economic policy will be influenced by the political system and the level of development of the country. As a result, countries will not have a pure free market, communist or socialist system. Most developing countries will have a combination of economies where the government will pass laws to protect local industries and businesses from stronger foreign competition. The state also plays a greater role in providing goods and services to communities with special needs. An example is the government's role in providing housing for poor people.

Businesses that invest capital in a country want to see a return on their investment and need to be confident that the government will protect their interests. For this reason, the governments of many developing countries have the responsibility to provide a stable economic environment. Political upheaval causes much insecurity and makes businesses cautious about investing their capital in an unstable country.

### Activity 1.2

Do research on the economic systems followed by South Africa, Cuba and Mozambique. Complete the following table following your research:

	South Africa	Cuba	Mozambique
Economic system			
Ownership of factors of production			
Government intervention and control			
Critically review the success of this economic system in each country			

## 1.3 The business environment

Every business is affected by its environment or the world around it. It cannot function in isolation. It continually interacts with people and elements outside the business. As mentioned before, a business is reliant on the people of the community to buy from it, while the people of the community are reliant on the business to provide them with need-satisfying goods and services. The **business environment** consists of all the components that influence the decisions, actions, strategies and objectives of a business or organisation in some way or the other.

Therefore, the business operates within an environment, and this environment can cause a business either to make or lose money. The environment also changes continually, and the business manager must be aware of these changes because they could have a major impact on the business. If people do not buy from the business for whatever reason, the business will suffer.

Furthermore, businesses can lose money through competing with one another. Occurrences such as labour strikes or natural disasters also make it difficult for a business to be as successful as it might want to be. In addition, events that take place on the other side of the world, can have an effect on a business in South Africa. For example, in March 2020, the World Health Organization (WHO) declared Covid-19 a pandemic. Beginning as an unexplained, pneumonia-like illness, first detected in China's Wuhan province, it spread to almost every country, bringing life across most of the world to a near-standstill. World leaders became ill and entire countries were locked down to prevent the spread of infection.<sup>2</sup>

The **business environment** includes all of the things that can affect how a business operates. These include forces that come from within the company as well as from outside the company.



## Talking point

Have a discussion in class about how the Covid-19 pandemic affected businesses and the impact of the decisions made by government in an attempt to prevent the virus from spreading.

The business environment can be divided into the following components:

- Internal environment:
  - the micro-environment
- External environment:
  - the market environment
  - the macro-environment.

Figure 1.4 shows these components of the business environment.

**FIGURE 1.4** The business environment



The **micro-environment** of a business consists of all the factors within the organisation which have a direct impact on its business and routine activities.

In Figure 1.4 you can see that the **micro-environment** is surrounded by the market environment and the macro-environment. The micro-environment is the smallest of the three environments and represents the business itself. The market and macro-environments are both outside the business and they affect the micro-environment. We can therefore say that the macro and market environment form part of the business's external environment. In turn, the micro-environment can only influence the market environment and not the macro-environment.

## The micro-environment

The micro-environment is the business itself. Another name for the micro-environment is the internal or decision-making environment – because this is where all the decisions for the business are made.

The micro-environment includes everything that occurs internally in the business. It is influenced directly or indirectly by management decisions, which will of course influence the growth and continued existence of the business. The variable factors found in the micro-environment are outlined in Chapter 2: The business environment, where we'll discuss each of the factors in this environment in detail.

In any business, we can identify eight distinct but interdependent enterprise or business functions. These are all part of the micro-environment. This means that, although they are seen as separate functions, they all affect one another. In other words, if the marketing department decides to promote the marketing of a specific product it would probably lead to a higher demand for that product. This would mean more of that product needs to be produced (production), thus more raw materials need to be procured (purchased), and so forth. The eight distinct but independent enterprise or business functions include:

1. general management
2. purchasing
3. operations and logistics
4. marketing
5. finance
6. human resources
7. public relations
8. administration.

The following example illustrates the role-players and activities in the business process from raw material to final product or service. It will serve as the key to introducing concepts explained in the other chapters, which are organised according to the different business functions and activities. In the example, the consumer experience is the starting point, and then we examine the different activities within the organisation to show you the link between functions.

### EXPAND YOUR KNOWLEDGE

#### Activities within an organisation

Mpho Baloyi, a student, decides to buy a branded T-shirt and jeans from Cotton On, on sale. The sale advert was placed by the marketing department of Cotton On to stimulate more sales during the slow months in the middle of the year. We will study the marketing function in Chapter 11.

Mpho's goes into the store to buy the T-shirt. This brings her into contact with the operations that take place in the store. She makes contact with the operations staff that assist her in the store, as well as with the service that Cotton On delivers. This function is called the production and operations function. We will look at operations management in Chapter 13.

For Mpho to purchase the T-shirt, there has to be stock in the store. The purchasing function buys the T-shirts from various suppliers. The purchasing manager has to manage the selection of the best suppliers and decide on how many T-shirts to order. Inbound logistics activities form part of this function and involve aspects such as transporting the T-shirts to the Cotton On warehouses from where they will be distributed to the individual stores.

They then become the responsibility of operations management. Some of the other activities in the organisation are support functions and do not necessarily have to do directly with the product or service. Without these functions, the product would not exist.

Money matters have to be organised by the finance function. The financial manager is responsible for supplying the finances to pay suppliers, to manage the money generated from sales to customers, to manage the debtors and creditors, and record and report all financial activities so that sound financial decisions can be taken. We will introduce you to financial management in Chapter 12. Important information has to be communicated internally and externally by the public relations function, also commonly called the communications function. Communication about company-related issues to customers, shareholders and other interested parties is critical to ensure that operations run smoothly.

Staff matters are managed by the human resource function. These include recruiting, selecting and appointing the right personnel; organising salaries and performance evaluation (to make sure that customers are kept satisfied by competent and devoted staff); managing employee relations; and making sure that human resources laws are upheld within the organisation. We will study the human resource function in Chapter 10.

Management of information and information systems are critical to enable managerial decision-making. This responsibility is carried out by the administrative function, which has to make sure that information is available, relevant and useful to all decision-makers in the organisation.

These activities are carried out to ensure the delivery of an end product to Mpho Baloyi. These functions have to be managed and co-ordinated according to general management principles. The function of general management is the link that connects each function of the organisation to the others. Managers need to manage people and processes in accordance with sound principles such as planning before taking action, organising people and processes into workable organisational structures, controlling each action as it is implemented by measuring its success relative to an agreed standard, and leading instead of just managing people. We will study the management tasks in Chapters 6–9.

## The market environment

The market environment is the environment directly surrounding the business. We also refer to the market environment as the task environment or the industrial environment (industry). The market environment consists of those industry factors which are external to the business but have a direct and specific impact upon the organisation and are in turn affected by the organisation's operations. It includes the consumers, competitors, regulatory bodies and special interest groups, and the labour market. We will take a closer look at the factors found in the market environment in Chapter 2: The business environment.

## The macro-environment

The macro or general environment (sometimes referred to as the mega environment) is also part of the business's external environment. It includes the major uncontrollable, external forces which influence a business's decision-making and have an impact upon its performance. The macro-environment includes the economic environment, the socio-cultural environment,

the political environment, the technological environment, the physical environment and the international environment. The macro-environment is also known as the general environment.

Remember, the macro-environment will influence the business, but the business cannot affect it in return. We will take a closer look at the macro-environment and its factors in Chapter 2: The business environment.

### Activity 1.3

You are looking at opening a café as you think it is a viable business venture. To help define your offering, think about a similar business that has been successful such as Starbucks. You want to do your own thing and don't want to be restricted by franchise rules and regulations. Describe the eight business functions and how you will implement it in your business.

## APPLY YOUR KNOWLEDGE

### **Netflorist was started by accident – now SA's oldest online store gets 730 000 orders a year**

*by James de Villiers, Business Insider SA, 08 Feb 2019*

NetFlorist – South Africa's oldest e-commerce company – was accidentally founded when three friends experimented with online retail in South Africa.

On Valentine's Day, the flower and gift delivery service will turn 20 years old. It now handles more than 730 000 orders a year.

In an interview on personal-finance show *Geldhelde*, co-founder and managing director Ryan Bacher credits the company's longevity to flexibility and a willingness to learn new skills.

With his two partners, Lawrence Brick and Jonathan Hackner, they were asked to build an online test store for the South Africa wholesale giant Makro to showcase the possibilities of online retail. 'Ecommerce didn't really exist in South Africa and we were testing to see if we could sell stuff – and we picked flowers randomly,' Bacher said. 'There was no strategic thinking and none of us knew about flowers. We just thought, "I wonder if flowers could sell."'

The online test store was launched on Valentine's Day in 1999 and was meant to close after a few days. NetFlorist ended up making R30 000 in its first month. Despite not knowing anything about flowers, Bacher, Brick and Hackner realised they were on to something and turned the NetFlorist experiment into a fully-fledged business. NetFlorist today specialises in same-day delivery of flowers, gifts, baked goods and even jewellery, and fulfills some 2 000 orders a day.

'Initially we liked the idea of selling flowers and that worked for a few years and then we realised flowers don't tick every occasion,' Bacher said.

'So we started branching off into all sorts of different things and it's gone quite wide. There's a bakery here. We can laser engrave your name on a chopping board.'

These non-floral products now represent almost 50% of NetFlorist's business.

*Source: Business Insider SA. 2019. Netflorist was started by accident – now SA's oldest online store gets 730 000 orders a year. Available from <https://www.businessinsider.co.za/south-africas-oldest-ecommerce-retailer-netflorist-2019-2> Viewed March 2022.*

### Questions

1. Is Netflorist satisfying a need or a want? Motivate your answer.
2. Identify elements of the micro-environment from the case study.
3. Who do you think is Netflorist's competition?
4. In what business environment would you find Netflorist's competition?

## 1.4 Types of organisations and where they are found

When we think of all the businesses that satisfy our daily needs, we see that they come in many shapes and sizes. In this section, we will look at the various types of need-satisfying organisations and in the next section at the various sectors in industry.

### Need-satisfying organisations

In South Africa, we can distinguish between three types of need-satisfying organisations:

1. private or business organisations
2. government or public organisations
3. not-for-profit organisations.

### Private or business organisations

These are also called businesses. They are established and managed by private individuals. These individuals risk losses when establishing these organisations because there are no guarantees that their businesses will be a success. Private or business organisations aim to make a profit by providing goods and services that satisfy the needs of society. They have to determine which products and services should be produced, how they should be produced, and for whom they should be produced. Can you think of a few private organisations in your area?

### Government organisations

These organisations are established and owned by government. These types of organisations are also known as state-owned companies, parastatals, or public corporations because they belong to the state, which is a public body. State-owned companies are organisations that concentrate on providing products and services of strategic, economic and political importance to the country. Eskom Holdings Ltd is South Africa's state-owned electricity provider and is an example of a state-owned company. Another example is the Airports Company South Africa (ACSA), which is fully owned by the state.

Private businesses often form partnerships with government to supply and deliver services at an agreed price and for a profit. An example is bus transport. Government does not get involved in the business of supplying buses, but would subsidise or pay for a bus company to provide this service. In this way, the government helps to ensure that the population has access to a relatively cheap form of transport so that learners can get to school and workers can get to work.

Government organisations are created to deliver particular services to the citizens of a country. In South Africa, there are three separate spheres of government – national, provincial and local – that work together and are interdependent to ensure effective service delivery. The national government is responsible for developing the broad strategies for the country that need to be implemented to meet the priorities of the state, such as improving education and access to health.

Provincial governments are responsible for delivering certain services such as agriculture, education and public health, among others, in South Africa's nine provinces. The local government sphere is where municipalities are found and these are responsible for ensuring service delivery that includes the provision of water and sanitation, municipal roads, electricity and refuse removal, for example.

Regardless of the sphere of government, managers will need to use their skills and managerial roles to manage these structures to achieve the priorities set by national government.

The South African government, for example, has indicated that its key priority for the next few years is to fight the Covid-19 pandemic and focus on economic growth.

## EXPAND YOUR KNOWLEDGE

### Government priorities for 2021

President Cyril Ramaphosa delivered the State of the Nation Address for 2021 on 11 February 2021.

Priorities for 2021:

- Defeat the Covid-19 pandemic.
- Accelerate economic recovery.
- Implement economic reforms to create sustainable jobs and drive inclusive growth.
- Fight corruption and strengthen the state.

To achieve the targets the government has set, the various government managers involved in these initiatives need to work together and use management principles to achieve the goals set out in the plan. Throughout this book, examples of management in government organisations will be provided.

*Source:* South African Government. 2021. Key Issues. Available from <https://www.gov.za/issues/key-issues> Accessed 28 March 2022.

## Not-for-profit organisations

There are organisations that satisfy important needs of society without making a profit. We call these organisations not-for-profit organisations or non-governmental organisations (NGOs). Not-for-profit organisations are geared towards providing a service and not towards making a profit. Their main aim is to uplift society. Their existence depends on receiving donations and getting the help of volunteers. Some of these organisations will receive subsidies from government as support, because government realises the importance of such organisations. However, even though a not-for-profit organisation, unlike other businesses, does not exist to make a profit, it still needs to be run on good business principles.

NGOs play an important role in society because they provide employment and attend to the needs of communities by providing essential services. Many people are dependent on not-for-profit organisations, such as community health organisations. Examples of NGOs are Lifeline, Sparrow Aids Village, the World Health Organization, Cape Mental Health and the Treatment Action Campaign. These organisations play an important role in supporting government to improve the quality of people's lives. Different opportunities exist for people to participate in community activities, ranging from community structures such as local policing forums to managing not-for-profit organisations.

These examples of organisations operating in the community offer services that may not be provided by government or the business sector. In most cases, the government and business sector work with these organisations to complement their service delivery or business models. Managing community-based organisations requires that managers develop an understanding of the needs of their community so that the services provided are relevant. While non-profit organisations may not be focused on increased market share or revenues, managers are still required to use sound management principles to run the organisation, as in most cases not-for-profit organisations have very limited resources.

## 1.5 The sectors in industry

Before we start explaining the different sectors in industry, let's look at the difference between a sector and an industry. The term *industry* refers to a small number of companies that operate in a similar business sector. The term *sector* refers to a part of the economy in which a great number of companies can be categorised and is larger in comparison.

Let's look at the larger sector. Businesses are grouped into the following three broad categories or sectors, based on the activities they perform:

1. the primary sector
2. the secondary sector
3. the tertiary sector.

### The primary sector

Businesses in the primary sector make use of natural resources in their raw, natural and unprocessed form. We call them exploitative enterprises, because the resources are being used for the purpose of making a profit. For example, when All Gold makes tomato sauce, its suppliers will collect tomatoes in their raw natural form from a tomato plant. The primary sector is concerned with getting raw materials, such as tomatoes, oil, coal, wood, rubber or wool, from their natural environment. Businesses in the primary sector therefore depend on natural resources for raw materials. Activities in the primary sector include mining, agriculture and fishing.

Let's consider another example. Lisa just got engaged to Thando. Her beautiful diamond ring had to go through a number of processes and sectors before it ended up on her finger. As mentioned, the primary sector is concerned with getting raw materials, such as gold and diamonds from their natural environment, in this case in the mining industry.

## The secondary sector

In the secondary sector, the raw materials exploited in the primary sector are processed and transformed into the final product. For example, the tomatoes are cleaned, cooked and made into tomato sauce. We can therefore say that the secondary sector adds value to the raw materials. This means that the raw materials are processed and changed into products that the consumer will find useful.

The secondary sector is also called the manufacturing sector. The process of making a table from the timber that came from a tree is called the manufacturing process. Products that are ready to be sold are called final products. Products that need further processing are called intermediate products.

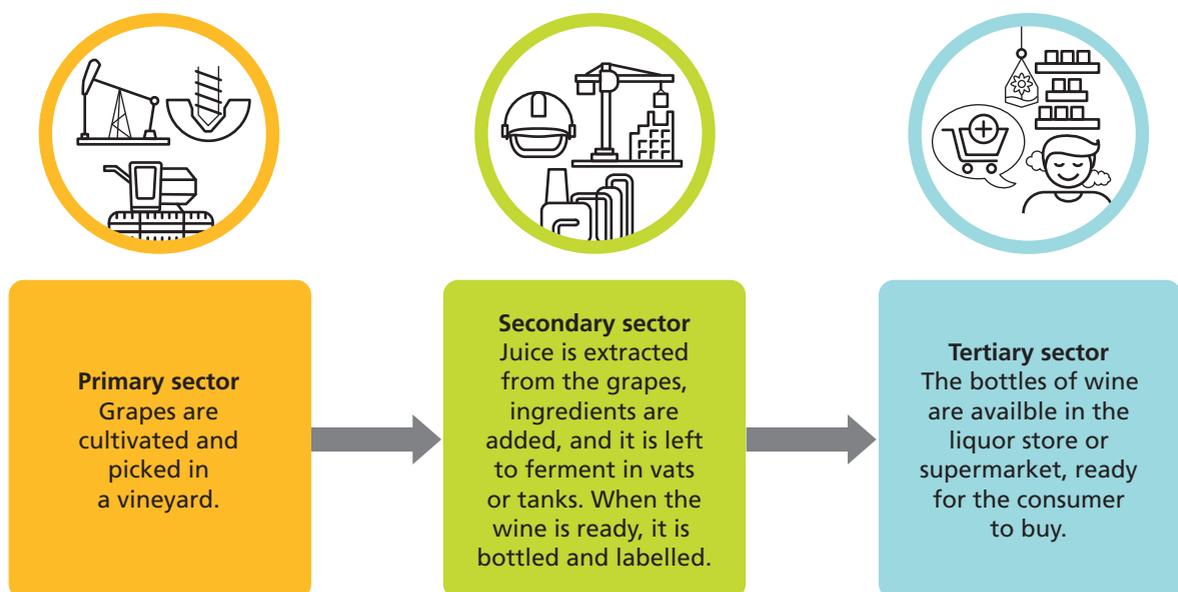
The gold and diamonds for Lisa's ring would have been transformed into usable materials, and ultimately into the ring, in this sector. From here the finished ring would be made available to Thando in the tertiary sector at a jewellery store such as Sterns or American Swiss.

## The tertiary sector

Businesses in the tertiary sector are responsible for distributing final products to the consumer.

They provide a service in ensuring that final products reach the consumer. For example, Pick n Pay sells the All Gold tomato sauce to consumers. The tertiary sector includes all the services that are offered by a business and it is also known as the services sector. Businesses operating in this sector provide the final products of the manufacturing process for consumers to buy. Figure 1.5 illustrates the way in which a product – a bottle of wine – moves through the three sectors until it reaches the consumer.

**FIGURE 1.5** The flow of a product – a bottle of wine – through the three sectors



A healthy economy presents opportunities to produce products and services in all three of the sectors. This means that there will be jobs for the unskilled, low skilled and the highly skilled. When all the people of the country believe that there are opportunities for them to work and for business to grow, we have a confident and hopeful country.

#### Activity 1.4

1. Track the path of either coins or paper money through the three sectors of the economy.
2. Explain in which sector we find banks and what the needs are that they satisfy.
3. Refer back to the NetFlorist case study. Explain the sectors of the economy involved in providing a bouquet of flowers to someone in the hospital

## 1.6 Formal and informal business

In the unique South African business environment it is important to distinguish between informal and formal businesses.

### Formal businesses

A formal business is any organised business with employers who offer fixed terms of employment. They offer jobs with regular hours, they pay regular wages and they pay taxes. Formal businesses are registered and protected. Formal businesses include private businesses as well as public corporations. These are businesses that meet all the relevant legal requirements. They are organisations that are clearly structured and regulated.

This could include anything from grocery stores to restaurants, petrol stations, banks, insurance companies, car dealers, mines – in fact, most of the businesses you are familiar with, will form part of the formal business sector. As long as the business follows the necessary legal requirements and legally employs people, it is part of the formal sector. This is essentially the ‘recognised’ business sector that contributes to the economy via the taxes they pay.

Characteristics of formal businesses:

- are more structured than informal businesses
- are part of an economy that is taxed
- are included in the **gross domestic product (GDP)**
- are highly monitored by the government.

**Gross domestic product (GDP)** is the total value of all the goods a country has produced and the services it has provided in a particular year.

### Informal businesses

Informal businesses are unregulated businesses. The average informal business is established for survival. The informal sector with informal businesses includes the part of the economy that is not taxed or monitored by the government.

Informal businesses are run by people who are not employed in the formal sector. Unfortunately, the informal sector often includes illegal business ventures because it is unregulated. Because informal businesses do not pay tax, their

activities are not included in the country's gross domestic product. If a business's activities are 'off the books' then it falls under the informal economy.

A large portion of South Africa's economy is made up of the informal sector. This includes many small businesses run from people's homes. Examples are spaza shops, hawkers, market gardeners.

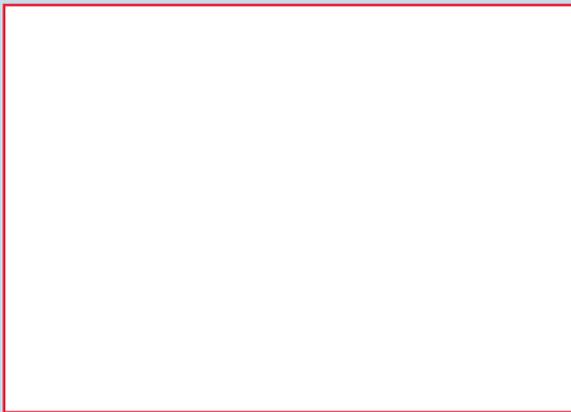
Characteristics of informal businesses:

- unstructured
- not part of an economy that is taxed
- not included in the gross domestic product
- not really monitored by the government.



## Talking point

Roadside stalls selling beautiful handmade crafts are common in South African holiday destinations. Discuss the impact of such informal businesses on the local economy.



**Strategy** refers to a plan of action or method designed to achieve a long-term aim or a desired future, such as achievement of a goal or solution to a problem.

## 1.7 The management tasks

In the previous section, we introduced you to the business environments and the sectors within which businesses operate. In this section, our focus will move to what happens in a business. Just as we need a brain to give instructions to our various body parts and organs before they can function, the business needs someone to give instructions to its various divisions. This is where management comes in. Managers need to decide what the business wants to achieve, and then they need to co-ordinate the resources of the organisation in such a way that it achieves what it has set out to do. This is where strategies play an important role. A **strategy** is a planned method to help the organisation achieve its mission.

**Strategic management** involves deciding the strategic direction of the organisation, in other words, what it wants to do and where it is going. This is also known as the vision of the organisation. Once the organisation has drawn up its vision in a vision statement, it needs to formulate objectives to help it achieve this vision. Each function within the organisation uses these objectives to set its own specific objectives. (Remember, we mentioned the eight functions in the organisation when we looked at the micro-environment.) We will take a closer look at strategic management in Chapter 14: Managing in a changing environment.

**Strategic management** is the process of examining both the internal and external environments, considering present and future developments, then formulating the organisation's objectives, and ultimately making, implementing and controlling decisions focused on achieving these objectives.

Management is important in both for-profit and not-for-profit organisations, as well as in the public (government) and private (business) sectors. Management has the responsibility to achieve the goals set by the organisation and bring together the skills and abilities of employees, so that everyone works towards a common objective. This can only be done through effective and efficient management. Efficient means to do things in the right way, while effective means to do things in such a way that it achieves specific objectives. We can say that management is the process followed by managers to guide the business towards achieving its objectives. We briefly introduce the four management tasks of planning, organising, leading and controlling below. They will be studied in detail in Chapters 6–9.

## Planning

Planning is considered to be the starting point of the management process. Before you can do anything, you need to decide in advance what you want to achieve. This makes it possible to imagine the end result and set objectives accordingly. An objective reflects the purpose of something. We can define objectives as a specific future position that the organisation wants to be in. Only once you have set the objectives can you determine how you will go about reaching them.

Planning is the process in which objectives are decided upon, and the plans on how to reach the objectives are formulated. Planning is very important, because it gives people in the organisation an idea of the direction in which the business is going. This improves the communication and the relationships among everyone involved in the business, as everyone clearly knows what is expected of them. Because planning is based on the future, it allows management to focus on the future. This improves proactive management. To be proactive means to anticipate problems and to prevent them from happening, if possible. When you are reactive, it means you wait for problems to arise before dealing with them.

## Organising

In the organising stage, goals and objectives have been set and management has to group the resources of the business in such a way that its objectives can be met. We can define organising as the development of a structure within which plans are carried out to achieve objectives in the best way.

Without organising, it is highly unlikely that plans will be successfully implemented. Organising helps managers to make a detailed analysis of what needs to be done and what resources will be needed. This makes it easier for them to divide the work that must be done into activities that can be performed by various people. This ensures that the scarce resources of the business are used effectively.

## Leading

Leading involves the whole process of motivating staff in such a way that their actions are directed towards reaching the objectives of the business. Good communication between staff and management is crucial. Leading is the ability of someone to influence people they lead in such a way as to achieve the objectives of the business. This relationship between a leader and members of a group contributes towards the members working together as a team to achieve the objectives of the organisation.

## Control

Controlling is the fourth and final management task. Controlling ensures that the results achieved correspond with the objectives set out to achieve in the first place. This ensures that the business is on course and that everybody in the organisation works to the advantage of the organisation. Many problems in an organisation could be avoided by properly controlling the factors of production.

It is important to exercise control in a business, because we live in a continuously changing environment that brings about new opportunities and threats to which the business has to react. Remember that control is directly linked to planning. Through planning, we set objectives – we determine what we want to achieve. We will only know whether we have reached our objectives if we exercise the process of control.

### Activity 1.5

Choose a business in your neighbourhood. Find out who the manager is and make an appointment to see him or her. Find out:

- what the vision of the business is
- what the business is doing to reach the vision
- how the manager plans certain business activities
- how control is exercised in the business
- which of the management tasks is most important to the manager.

## Chapter review

### Summary

#### What drives business?

Businesses exist because people have needs and wants for services and products. The interaction between businesses and the community is complex and can benefit and disadvantage both parties. Businesses create goods and services by using four sets of resources: natural resources, capital, labour and entrepreneurship.

#### Economic systems

Different countries have different economic systems, based on the values of the particular country. The economic systems include the traditional system, the capitalist or free market system, the communist system, the socialist system and the mixed system.

#### The business environment

The environment – or the world around the business – affects every business. The business's environment can result in it making or losing money.

We examined the various sections of the business environment, as well as various kinds of organisations, such as private, government and not-for-profit organisations, including the important role played by NGOs and how they are managed.

## Types of organisations

In South Africa, we can distinguish between three types of need-satisfying organisations: private or business organisations, government or public organisations and not-for-profit organisations.

## The sectors in industry

Businesses are grouped into the following three broad categories or sectors, based on the activities they perform: the primary sector, the secondary sector and the tertiary sector.

## Informal vs formal businesses

Formal businesses are registered and regulated by the government. The labourers, businesses and activities that make up the informal sector are not registered with or taxed by the government.

## Management tasks

Management is the process of using an organisation's resources to achieve specific objectives. This is done by carrying out four management tasks: planning, organising, leading and controlling.



## Critical reflection

Imagine you are observing people on the Gautrain station, early on a Monday morning. You see hundreds of commuters on their way to work. Now, answer the following questions:

1. What kinds of jobs do you think these people might be going to? Make a list of five possible occupations.
2. What do you think these people will buy with the money they earn? List five possible goods or services.
3. Why do you think people work?
4. Think of the sectors in industry, in what sector does the Gautrain operate?
5. Does the Gautrain address a need or a want? Motivate your answer.
6. Explain the effect of the Covid-19 pandemic on the Gautrain operations. Refer specifically to the relevant business environments involved.
7. Does the Gautrain form part of the formal or informal business sector? Motivate your answer.

## TEST YOUR KNOWLEDGE

1. What is a business?
2. What is management?
3. What drives business?
4. Distinguish between needs and wants.
5. Distinguish between tangible and intangible products.
6. Name the four factors of production.
7. What is the main difference between informal and formal businesses?
8. Give two characteristics of each of the following:
  - the market system
  - the command system
  - the mixed-market system.
9. Explain the flow of a liter of Clover milk bought at Pick n Pay through the three sectors in industry.

## APPLY YOUR KNOWLEDGE

### RocoMamas – customising satisfaction

Founded in July 2013, RocoMamas has fast become one of the trendiest restaurants in South Africa, garnering a loyal following of burger enthusiasts. Their brand position of 'Not Normal' is evident in their funky décor, rock 'n roll vibe, unique menu items and an open-style kitchen where customers can see (and smell) the meals being prepared. This new concept is a result of the growing appetite for handmade food and a more personalised dining experience. Customers can sit down and soak up the laid-back vibe with a burger and craft beer or choose to order a takeout thanks to the speedy service. RocoMamas has a menu that goes far beyond your typical burger joint; it's all about customisation.

Famous for their artisanal style 'Smashburgers', the franchise also serves chicken wings and ribs as their core offering. The Smashburger concept refers to the process of smashing a ball of ground beef on a hot grill to seal in the juices, rather than squeezing the juice out. This results in a medium to well-done burger that is very juicy. Many customers will testify that once you've tasted a Smashburger, there's no going back to 'normal' – something that RocoMamas prides itself on not being. The RocoMamas concept was launched by Brian Altriche, who has grown RocoMamas to more than 75 restaurants throughout the country and 17 international restaurants, located in Australia, Namibia, Kenya, Zimbabwe, Mauritius, the Middle East and recently opened outlets in Cyprus and India. Spur Corporation acquired the majority stake in RocoMamas in March 2015.



With growth on the horizon for RocoMamas, Spur Corporation looks forward to keeping the brand true to its core values and distinctiveness that customers unquestionably love. A combination of unique menu items, a trendy dining atmosphere and a bill that won't break the bank, makes RocoMamas a winning recipe for success in South Africa.

Source: SpurCorp. Operational profile. Available from <https://www.spurcorporation.com/operational-profile/rocomamas/#:~:text=The%20RocoMamas%20concept%20was%20launched%20by%20Brian%20Altriche%2C,opened%20its%20first%20outlets%20in%20Cyprus%20and%20India> Accessed 28 March 2022.

### Questions

1. Does RocoMamas address a need or a want? Motivate your answer.
2. Which of Maslow's needs does RocoMamas satisfy?
3. How does it meet these needs?
4. Using examples from the case study, identify RocoMamas factors of production.
5. What is the economic principle and how does RocoMamas try to meet it?
6. Think of the sectors in industry, in what sector does RocoMamas operate?
7. Explain the effect of the Covid-19 pandemic on the RocoMamas operations. Refer specifically to the relevant business environments involved.
8. Does RocoMamas form part of the formal or informal business sector? Motivate your answer.

## Investigate further

- Breznitz, D. 2021. *Innovation in Real Places: Strategies for Prosperity in an Unforgiving World*. Oxford University Press: USA.
- Downs, P. 2015. *Boss Life: Surviving My Own Small Business*. Blue Rider Press. Penguin Random House: New York.
- Dumas, M, La Rosa, M, Mendling, J, Reijers, H. 2013. *Fundamentals of Business Process Management*. Springer: Heidelberg.
- Magretta, J. 2002. *What Management Is: How It Works and Why It's Everyone's Business*. HarperCollins Business: Great Britain.
- Sinek, S. 2011. *Start With Why*. Penguin.

## Endnotes

1. BusinessTech. 2021. These are the most in-demand job skills in South Africa right now. Available from <https://businesstech.co.za/news/business/506748/these-are-the-most-in-demand-job-skills-in-south-africa-right-now-19/> Accessed 21 May 2022.
2. New Scientist 2022. Covid-19: The story of a pandemic. Available from: <https://www.newscientist.com/article/2270361-covid-19-the-story-of-a-pandemic/#ixzz7OS48ZIYn> Accessed 24 March 2022.