CHAPTER 1
THE BUSINESS WORLD AND BUSINESS MANAGEMENT
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Introduction

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

• The description of a business emphasises four different elements:
  o Business involves human activities
  o Business involves production
  o Business involves exchange
  o Business involves profit.
The role of business in society (continued)

• Business world under pressure to reconsider role in the following:
  o Social responsibility
  o Affirmative action and equity
  o Business ethics
  o Consumerism
  o Environmental damage.
Needs and need satisfaction

• The multiplicity of human needs
  o Humans have a wide range of unlimited physical and psychological needs to satisfy
  o Range from the most basic need for food to the need for self esteem

• Society’s limited resources:
  o Natural resources
  o Human resources
  o Capital
  o Entrepreneurship.
The needs and resources of the community

Figure 1.5: The needs and resources of the community
The cycle of need-satisfaction

- The driving force of the community is the economic motive

- Members of society decide which economic system will best satisfy their needs: a market economy, socialism or a command economy (communism)
- The economic system is subject to the economic principle

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

THE COMMUNITY
- Unlimited needs
- Limited resources of society

The community chooses its need-satisfying system

ECONOMIC SYSTEM
- The system chosen to achieve the highest possible satisfaction of needs using scarce resources

It indicates the role of need-satisfying organisations

THE ENTREPRENEUR
- Entrepreneurs and their businesses are the need-satisfying institutions in a market economy

The needs of the community are satisfied or are not met

If the community is not satisfied with the way in which its needs are being satisfied, it will change the system or choose some other need-satisfying system

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

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

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

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

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

**Table 1.2: A comparison of the main economic systems**

<table>
<thead>
<tr>
<th></th>
<th>Market economy</th>
<th>Socialism</th>
<th>Command economy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main characteristics</strong></td>
<td>- There is private ownership of the factors of production.</td>
<td>- Basic industries are owned by the state.</td>
<td>- The state owns and controls all industries and agriculture.</td>
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<td></td>
<td>- There is freedom of choice.</td>
<td>- There is freedom of choice.</td>
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<tr>
<td><strong>Markets</strong></td>
<td>- Free competition exists.</td>
<td>- Limited competition exists as a result of state industries.</td>
<td>- No competition exists.</td>
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<td><strong>Driving force</strong></td>
<td>- Profit and reward are achieved according to individual ability.</td>
<td>- The profit motive is recognised.</td>
<td>- Profit is not allowed.</td>
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<td></td>
<td>- Employees’ pay in state-owned concerns is based on workers’ needs.</td>
<td>- Workers are urged to work for the glory of the state.</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>- Private businesses create the management environment.</td>
<td>- The management environment comprises state-owned as well as private businesses.</td>
<td>- The state creates the management environment.</td>
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<tr>
<td></td>
<td>- Managers are free to make decisions.</td>
<td>- Decisions are restricted to government policy in state-owned organisations.</td>
<td>- There is no freedom of decision.</td>
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<td></td>
<td>- People are free to choose their careers.</td>
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<td>- Managers are also party members.</td>
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<tr>
<td><strong>Labour</strong></td>
<td>- Workers are independent and free to choose their jobs and their employer.</td>
<td>- Workers are free to choose their jobs and their employers.</td>
<td>- There is a limited choice of jobs.</td>
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<td></td>
<td>- They are free to join unions and to strike.</td>
<td>- There is a limited right to strike in state organisations.</td>
<td>- Unions are controlled by the state.</td>
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<tr>
<td><strong>Consumers</strong></td>
<td>- There is freedom of choice in free markets.</td>
<td>- There is freedom of choice, except in respect of the products of state organisations, the prices and quality of which have to be accepted.</td>
<td>- Rationing of products occurs.</td>
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<td></td>
<td>- Spending is only limited by income.</td>
<td></td>
<td>- There is a very limited choice.</td>
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<tr>
<td><strong>Advantages</strong></td>
<td>- Private initiative occurs.</td>
<td>- There is the possibility of full employment.</td>
<td>- Prices of products and income levels are set by the state.</td>
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<td>- There is economic freedom.</td>
<td>- The state stabilises economic fluctuations.</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td>- The environment is unstable.</td>
<td>- There is little incentive in state organisations.</td>
<td>- The state can concentrate resources towards particular ends.</td>
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<td>- Cyclical fluctuations occur.</td>
<td>- State organisations can be unproductive.</td>
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<td>- There are high social costs.</td>
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</table>
The need-satisfying institutions of the market economy

• Business organisations
• Government organisations
• Non-profit-seeking organisations
Products and services offered in the market system

Figure 1.9: Products and services offered in the market system
The nature of business management

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

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

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