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**KNOWLEDGE COMPONENT: LEARNING RESOURCE:**

**BOOK 11: OPERATIONS MANAGEMENT**

**OCCUPATIONAL QUALIFICATION: SUGAR PROCESSING CONTROLLER**

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**LEARNING RESOURCE**

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**OCCUPATIONAL QUALIFICATION:**

**SUGAR PROCESSING CONTROLLER**

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**TABLE OF CONTENTS**

[AN INTRODUCTION TO THIS LEARNING RESOURCE 8](#_Toc8902474)

[KNOWLEDGE MODULE 11 9](#_Toc8902475)

[OPERATIONS MANAGEMENT 9](#_Toc8902476)

[1. Knowledge Topic 1: General operational management concepts 10](#_Toc8902477)

[1.1 THE ROLE OF AN OPERATIONAL MANAGER 10](#_Toc8902478)

[1.2 MANAGEMENT THEORY 11](#_Toc8902479)

[1.3 PLANNING AND SCHEDULING 11](#_Toc8902480)

[1.3.1 Planning 11](#_Toc8902481)

[(1) Determining and defining the objectives 11](#_Toc8902482)

[(2) Forecasting uncertainties 11](#_Toc8902483)

[(3) Specifying policy and procedures 12](#_Toc8902484)

[(4) Anticipating future problems and developing plans for unforeseen circumstances 12](#_Toc8902485)

[(5) Changing plans according to results of control task 12](#_Toc8902486)

[1.4 ORGANISING 13](#_Toc8902487)

[1.4.1 Scheduling 13](#_Toc8902488)

[1.5 LEADING AND LEADERSHIP THEORIES AND CONCEPTS 13](#_Toc8902489)

[1.5.1 The functions of leaders 13](#_Toc8902490)

[1.5.2 Leadership characteristics 13](#_Toc8902491)

[1.6 CONTROLLING 14](#_Toc8902492)

[1.7 PRODUCTION REPORTING 15](#_Toc8902493)

[1.8 DECISION MAKING AND PROBLEM SOLVING METHODS 15](#_Toc8902494)

[1.8.1 Identify and define problems and opportunities 16](#_Toc8902495)

[1.8.2 Gather and analyse relevant information, opinions and facts 16](#_Toc8902496)

[1.8.3 Identify and analyse alternative actions and solutions 17](#_Toc8902497)

[1.8.4 Make the decision – choose the best option 17](#_Toc8902498)

[1.8.5 Implement the decision 17](#_Toc8902499)

[1.8.6 Accept responsibility for the decision and its consequences 18](#_Toc8902500)

[1.8.7 Evaluate the results of the decision 18](#_Toc8902501)

[1.9 CONTINUOUS IMPROVEMENT MODELS 18](#_Toc8902502)

[1.10 DELEGATION PRINCIPLES 20](#_Toc8902503)

[1.11 DOCUMENT CONTROL AND ADMINISTRATION 20](#_Toc8902504)

[1.11.1 Outline of the functions of production control – documentation 21](#_Toc8902505)

[(1) Operator’s work record 21](#_Toc8902506)

[(2) Job card 22](#_Toc8902507)

[1.11.2 Management of maintenance 23](#_Toc8902508)

[1.12 CHALLENGES FOR OPERATIONAL MANAGERS 24](#_Toc8902509)

[2. Knowledge Topic 2: Employment relations management 26](#_Toc8902510)

[2.1 THE EMPLOYMENT RELATIONSHIP 26](#_Toc8902511)

[2.2 KEY PROVISIONS OF THE LEGISLATIVE FRAMEWORK GOVERNING EMPLOYMENT 26](#_Toc8902512)

[2.2.1 The Adult Basic Education and Training Act 26](#_Toc8902513)

[2.2.2 The Agricultural Labour Act, 1993 (Act No. 147 of 1993) 26](#_Toc8902514)

[2.2.3 The Basic Conditions of Employment Act, 1997 (Act No. 75 or 1997) 26](#_Toc8902515)

[2.2.4 Employment Equity Act, 1998 (Act No. 55 of 1998) 26](#_Toc8902516)

[2.2.5 Extension of Security of Tenure Act, 1997 (Act No. 62 of 1997) 28](#_Toc8902517)

[2.2.6 Labour Relations Act, 1995 (Act No. 66 of 1995) 28](#_Toc8902518)

[2.2.7 Skills Development Act, 1998 (Act No. 97 of 1998) 29](#_Toc8902519)

[2.3 MANAGING WORKPLACE DISCIPLINE 29](#_Toc8902520)

[2.3.1 THE CODE 29](#_Toc8902521)

[(3) The employee shall: 29](#_Toc8902522)

[(4) The employee shall not: 30](#_Toc8902523)

[2.3.2 Disciplinary principles and procedures 31](#_Toc8902524)

[(1) Principles 31](#_Toc8902525)

[(5) Procedure 32](#_Toc8902526)

[(a) Informal procedure 32](#_Toc8902527)

[(b) Formal procedure 32](#_Toc8902528)

[2.4 MANAGING WORKPLACE CONFLICT AND GRIEVANCES 34](#_Toc8902529)

[2.4.1 Grievance principles and procedures 34](#_Toc8902530)

[(1) Principles 34](#_Toc8902531)

[(2) Procedure 34](#_Toc8902532)

[2.5 MANAGING CAPACITY RELATED PROBLEMS 37](#_Toc8902533)

[2.5.1 Capacity requirement planning 37](#_Toc8902534)

[2.6 ORGANISED LABOUR 38](#_Toc8902535)

[2.6.1 National Economic, Development and Labour Council 38](#_Toc8902536)

[2.6.2 Commission for Conciliation, Mediation and Arbitration 39](#_Toc8902537)

[3. Knowledge topic 3: Financial management concepts 41](#_Toc8902538)

[3.1 BUDGETS, BUDGETING CONCEPTS AND BUDGET CONTROL 41](#_Toc8902539)

[3.1.1 Budgeting control 42](#_Toc8902540)

[3.2 COST ESTIMATES AND CALCULATIONS 42](#_Toc8902541)

[3.2.1 Fixed costs vs variable costs 42](#_Toc8902542)

[3.2.2 Direct costs vs indirect costs 43](#_Toc8902543)

[3.2.3 The Income Statement 44](#_Toc8902544)

[(3) Net Factory Income (NFI) 44](#_Toc8902545)

[(4) Net Factory Profit (NFP) 45](#_Toc8902546)

[(5) Net Increase in the Value of Assets over Liabilities 45](#_Toc8902547)

[(6) Growth in Net Worth 45](#_Toc8902548)

[3.2.4 Cash Flow Budget 47](#_Toc8902549)

[(7) Advantages of cashflow budgets 49](#_Toc8902550)

[(8) Disadvantages of cashflow budgets 49](#_Toc8902551)

[3.3 COST MANAGEMENT 50](#_Toc8902552)

[3.3.1 Waste 50](#_Toc8902553)

[3.3.2 Re-work 51](#_Toc8902554)

[3.3.3 Recall 52](#_Toc8902555)

[3.4 FINANCIAL SOURCE DOCUMENTS 53](#_Toc8902556)

[4. Knowledge topic 4: Personnel management concepts 54](#_Toc8902557)

[4.1 BASIC CONDITIONS OF EMPLOYMENT AND CONTRACTS 54](#_Toc8902558)

[4.1.1 Introduction 54](#_Toc8902559)

[4.1.2 The Basic Conditions of Employment Act, 1997 (Act No. 75 or 1997) 54](#_Toc8902560)

[(1) Working hours 54](#_Toc8902561)

[(2) Specific exclusions 54](#_Toc8902562)

[4.1.3 Enforcement of the Act 56](#_Toc8902563)

[4.2 CONTRACTS 56](#_Toc8902564)

[4.3 JOB ANALYSIS AND DESCRIPTIONS 57](#_Toc8902565)

[4.3.1 Job descriptions 57](#_Toc8902566)

[Identification information 58](#_Toc8902567)

[Job summary 58](#_Toc8902568)

[Job duties and responsibilities 58](#_Toc8902569)

[4.3.2 Job Analysis: Things to consider when compiling a job specification 58](#_Toc8902570)

[4.4 PERFORMANCE MANAGEMENT 59](#_Toc8902571)

[4.4.1 Performance evaluation 59](#_Toc8902572)

[4.4.2 Remuneration 61](#_Toc8902573)

[4.5 TRAINING MANAGEMENT 61](#_Toc8902574)

[4.6 MENTORING AND COACHING 64](#_Toc8902575)

[4.7 RECRUITMENT AND SELECTION 64](#_Toc8902576)

AN INTRODUCTION TO THIS LEARNING RESOURCE

This Knowledge Component Learning Resource: Book 11: Operations Management is intended to be used with the Knowledge Component Learner Workbook 11 (Formative Assessment Guide): Operations Management: Sugar Processing Controller NQF 5. It can also be used as a stand-alone information resource (text book).

This Learning Resource provides detailed information on the following topics:

* KM-11-KT01: General operational management concepts (25%)
* KM-11-KT02: Employment relations management (25%)
* KM-11-KT03: Financial management concepts (25%)
* KM-11-KT04: Personnel management concepts (25%)

(Note: KM = Knowledge Module, KT = Knowledge Topic)

KNOWLEDGE MODULE 11

OPERATIONS MANAGEMENT

Module number: 313908000-KM-11: NQF Level 5: Credits 12

**BACKGROUND**

Operations management is an area of management concerned with designing and controlling the process of production and redesigning business operations in the production of goods or services.

* 1. Knowledge Topic 1: General operational management concepts

# 1.1 THE ROLE OF AN OPERATIONAL MANAGER

Operational managers are responsible for the technical management, supervision and control of industrial production processes.

Shift and 'on-call' work may be required, particularly where manufacturing/production equipment is in continual 24-hour operation. Operational managers ensure that manufacturing processes run reliably and efficiently.

Responsibilities of the job include:

* planning and organising production schedules
* assessing project and resource requirements
* estimating, negotiating and agreeing budgets and timescales with clients and managers
* ensuring that health and safety regulations are met
* determining quality control standards
* overseeing production processes
* re-negotiating timescales or schedules as necessary
* selecting, ordering and purchasing materials
* organising the repair and routine maintenance of production equipment
* liaising with buyers and marketing and sales staff
* supervising the work of junior staff
* organising relevant training sessions

# 1.2 MANAGEMENT THEORY

Management theories are concepts surrounding recommended management strategies, which may include tools such as frameworks and guidelines that can be implemented in modern organizations. Corporate structure refers to the organization of different departments or business units within a company. Depending on a company’s goals and the industry which it operates in, corporate structure can differ significantly between companies. Each of the departments usually performs a specialized function.

# 1.3 PLANNING AND SCHEDULING

## 1.3.1 Planning

Planning is the most basic management function in that it provides the mode of operation to accomplish the objectives. Essentially, planning involves selecting a particular strategy or course of action from among alternative courses of action with the objective of obtaining the greatest satisfaction of the goals.

Planning is a scientific process which could be defined as the determination of those future activities required to achieve the objectives. It creates a framework for achieving specific objectives through the implementation and control of various production factors (or inputs) such as natural resources, capital and labour.

A plan must be developed before the manager can determine what kind of resources will be required to accomplish the goals.

The components of planning include:

### Determining and defining the objectives

The starting point for planning is to determine the goals and establish the constraints within which the factory will operate. Goals provide the basis to judge the desirability of alternative plans.

### Forecasting uncertainties

Because planning involves predictions with respect to future events, forecasting is an essential component of the planning process. Forecasting involves assessing the future and making provisions for it in the plan. For example, the manager must forecast the expected price of the products being produced, the price of the inputs that will be needed, and the amount of product that will be produced. These forecasts must consider not only how much product will be produced, but also the demand for the products and the effects of competitive products. Potential changes in government regulations and actions that might influence the market or the availability of production inputs must also be considered. This is especially the case in the Sugar Industry with the introduction of the Sugar Tax which has decreased the market for sugar.

### Specifying policy and procedures

Policy and procedure statements can be useful planning tools. Policy and procedure statements are used to guide or channel thinking and short-run or operational decision-making. They can be used to assure that the decisions will be consistent with, and contribute to, objectives. Policy and procedure statements tend to pre-decide issues, thus avoiding repeated analysis of problems that arise regularly. Policy and procedure statements can also be useful in communicating plans and courses of action to employees as well as in providing guidelines for management in the planning and decision-making process. Policies and procedures can be communicated verbally. However, written policy statements are more easily interpreted by employees and also provide evidence of consistent standards for future management decisions.

### Anticipating future problems and developing plans for unforeseen circumstances

Although forecasts are subject to error, it is often desirable to develop contingency plans based on different sets of forecasts. This procedure enables the manager to adapt his or her decisions to changing conditions. Plans are developed using various forecasts of prices and production output. Then the plan associated with the “most likely” forecast is implemented.

### Changing plans according to results of control task

As the production period unfolds, changes in market or weather conditions that influence price and production may change the “most likely” forecast. With a contingency plan in place, a change can be made from the original to the contingency plan before irreparable financial consequences have been incurred. This is also known as “adaptive decision-making”.

Planning is deciding in advance:

* What should be done
* How each task should be accomplished
* When the task should be done
* Who will be responsible for completing the task

# 1.4 ORGANISING

The second major function of the manager is to implement the plan that has been developed in the planning process. Essentially, implementation involves carrying out or putting into action the chosen plan. This function involves acquiring the personnel and other resources necessary to get the tasks done, organising the work load to complete the tasks on schedule, and actually supervising and directing the accomplishment of the various tasks. Implementation is more than the physical labour associated with getting the job done. It also involves organising and directing the physical activities whether they be performed by the managers themselves or the other employees.

Scheduling and organising are two elements of implementation.

## 1.4.1 Scheduling

Scheduling is the process of arranging, controlling and optimizing work and workloads in a production process.

# 1.5 LEADING AND LEADERSHIP THEORIES AND CONCEPTS

Leadership has been described as the “process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task”.

## 1.5.1 The functions of leaders

* The leader must provide for the well-being of the led,
* Provide a social organization in which people feel relatively secure, and
* Provide a set of beliefs.

## 1.5.2 Leadership characteristics

1. **Intelligence:** Leaders should, ideally, be somewhat more intelligent than subordinates. A desire to solve complex problems and discover patterns in events is particularly prevalent.
2. **Initiative:** A good leader must use her or his initiative or have the capacity to perceive the need for action and then to do something about it. This characteristic is closely related to energy and stamina.
3. **Self-assurance:** A good leader has self-assurance or the self-confidence to believe in what he or she is doing. The trait is related to people’s perception of their place in society and to their aspirations for themselves. Self-assurance does not have to be pushy or aggressive.
4. **Seeing the big picture:** The ability of a successful manager to rise above a particular situation and see it in its broader context, and then to descend to attend to the detail.
5. **Other characteristics:** Good health, enthusiasm, sociability, integrity, courage, imagination, decisiveness, determination, energy.

# 1.6 CONTROLLING

The control function involves measuring performance and correcting deviations from expected behaviour to ensure the accomplishment of the plans and achieving of the objectives. Thus, control includes the management activity of record keeping, as well as comparing the actual outcome reported in the records with the projected budgets prepared during the planning process. Since the plans that have been chosen for implementation can be considered the best means of accomplishing the mill’s objectives, deviations from plans as evidenced by the control system, should provide a warning that current performance may not accomplish the specified goals and that corrective action may be required.

Control is thus necessary for the following reasons:

* Planning is often hampered by an uncertain environment and incomplete knowledge. Some of the assumptions made could easily be incorrect; therefore adjustments and modifications are often necessary.
* Even if all planning data were basically correct, some of the objectives cannot always be achieved in full. The sooner these objectives are identified, the better.
* Although everything may be going according to plan, the dynamic nature of the environment could result in a plan becoming outdated. Due to changing price ratios, other enterprises of the business may, for example, become more profitable.

Control consists of the following steps:

1. Establishing standards
2. Keeping the relevant records
3. Measuring performance against these standards
4. Correcting deviations from standards and plans.

# 1.7 PRODUCTION REPORTING

Each Operator and each Operational Manager must be able to keep records and provide documentary proof of the quality and quantity of product manufactured every day, week and the totals for each month. Throughout this Qualification you have been learning ways in which to calculate the quantities and measure the qualities of product going into and coming out of each Sugar Processing step, until the final product is packaged. Production reporting is a natural part of providing feedback to management and sales departments, as well as reporting back to sugar cane farmers on the quality and quantity of raw product that they delivered. Each Sugar Mill will have its own Standard Operating Procedures on how this reporting needs to be done. It will also have its own ways of how this information will be applied to improve performance, correct errors and increase efficiency. Find out how this information is used - Understanding how this information is used will motivate you to provide accurate and consistent reporting to management.

# 1.8 DECISION MAKING AND PROBLEM SOLVING METHODS

When a manager has to allocate or apportion limited resources, such as capital or labour, to several alternative uses, he is forced to make decisions. This is one of the reasons, if not the most important one, why decision making is incorporated in the definition of operations management. If decisions are not made, everything will grind to a halt. Even leaving things as they are implies a decision; maybe not a good one, but a passive decision nevertheless.

Rational decision making is a scientific process directed at achieving an objective. The decision making process consists of the logical sequence of the following steps:

1. Identify and define problems or opportunities.
2. Gather and analyse relevant information, opinions and facts.
3. Identify and analyse alternative actions and solutions.
4. Make the decision – choose the best option.
5. Implement the decision.
6. Accept responsibility for the decision and its consequences
7. Evaluate the results of the decision.

## 1.8.1 Identify and define problems and opportunities

A manager should always be ready to identify problems at an early stage. Most problems do not disappear automatically, but present an opportunity to increase the profitability of the business through corrective decision making. Once the problem has been identified, it should be described clearly and exactly, and a clear distinction drawn between its cause(s) and effect(s). A meaningful definition of the problem will minimise the time and cost involved in the other steps of the decision making process and optimise the chances of success. It is therefore important that the manager finds answers to the following questions:

1. Is it a problem which influences the pursuance of management objectives?
2. What are the causes and effects of the problem?
3. What are the cost implications?
4. How much management time will be involved?

## 1.8.2 Gather and analyse relevant information, opinions and facts

As soon as the actual problem has been adequately identified and defined, the next step can be taken. This involves gathering data, information and facts, and making observations which pertain to the problem. An exact definition of the problem will be helpful in identifying relevant information and will prevent time being wasted on information that will not contribute to the solution of the problem. Data sources include, for example, agricultural extension officers, researchers, the media and the bank manager. Another important and illuminating source of information is an accurate and complete set of Mill business records.

When making decisions, the manager often also has to be knowledgeable about future developments such as market prices and interest rates. Decisions may be based on estimates or expectations derived from historical prices and updated production figures. The decision maker should furthermore possess good insight, common sense and sound judgement.

Gathering data and facts and processing these into problem-related information can be a mammoth task. A manager could, for example, never be satisfied with the accuracy of his information. A good manager should therefore use as guidelines the urgency and importance of the problem, as well as the cost and advantages involved in obtaining more and better information. It is essential to complete this step before attempting the next one.

## 1.8.3 Identify and analyse alternative actions and solutions

When analysing the relevant information, several alternative potential solutions to the problem usually present themselves. Some solutions may involve a lot of effort and may seem time-consuming, but it is important to list all possible solutions.

To ensure accuracy and completeness, each alternative should be analysed in a logical and organised manner. If certain information is not available, or the cost involved in obtaining additional information will exceed the potential production which could result from using more and/or better information, sound judgement and practical experience have to prevail.

## 1.8.4 Make the decision – choose the best option

Choosing the best alternative is not always easy, nor the best solutions always obvious. After considering the advantages and disadvantages of every alternative, all the solutions may seem equally suitable. The alternative which will bring about the largest potential increase in expected profit is usually chosen. Uncertainty about future prospects may, however, impede the selection of an alternative. It is therefore often necessary to gather additional and more appropriate information. But, sooner or later a choice must be made. A person who shrinks from making a decision will hardly become a successful manager. If more than one potential solution will have more or less the same effect on expected profit, the operations manager should consider the probability, opportunity and risk associated with each alternative. The alternative carrying the least risk should be chosen.

## 1.8.5 Implement the decision

To achieve the desired result, the correct choice has to be made and implemented immediately with the necessary resources being mobilised and organised.

## 1.8.6 Accept responsibility for the decision and its consequences

It is the duty of the manager or decision maker to accept responsibility for the decision, its consequences, and to learn from past mistakes. A manager cannot shirk this responsibility; it is an integral part of the management task.

## 1.8.7 Evaluate the results of the decision

As not every decision will be the right one, results should be evaluated carefully to allow for timely adjustments and changes to the original decision. If results are not evaluated, the initial problem is often not solved and new problems could arise as a consequence. Thus precious opportunities for making timely adjustments, learning from mistakes and making better decision in future, are lost.

In addition, the features of various decisions should be analysed. Decisions can be classified according to the following features:

* Importance
* Timing
* Number of alternatives
* Frequency
* Revocability

All decisions are obviously not equally important or equally urgent. Similarly some problems have more alternative solutions than others, whilst some decisions have to be made more frequently. Some decisions can easily be changed, while the consequences of others are irreversible and inevitable once those decisions have been implemented (thus, they are irrevocable). Every day the manager faces several problems which require decisions. By classifying decisions according to the above features, he will be able to make the correct decisions at the right time in the right circumstances, thereby improving the success of operations management.

# 1.9 CONTINUOUS IMPROVEMENT MODELS

The terms continuous improvement and continual improvement are frequently used interchangeably. But some quality practitioners make the following distinction:

* **Continual improvement**: a broader term preferred by W. Edwards Deming to refer to general processes of improvement and encompassing “discontinuous” improvements–that is, many different approaches, covering different areas.
* **Continuous improvement:** a subset of continual improvement, with a more specific focus on linear, incremental improvement within an existing process. Some practitioners also associate continuous improvement more closely with techniques of statistical process control.

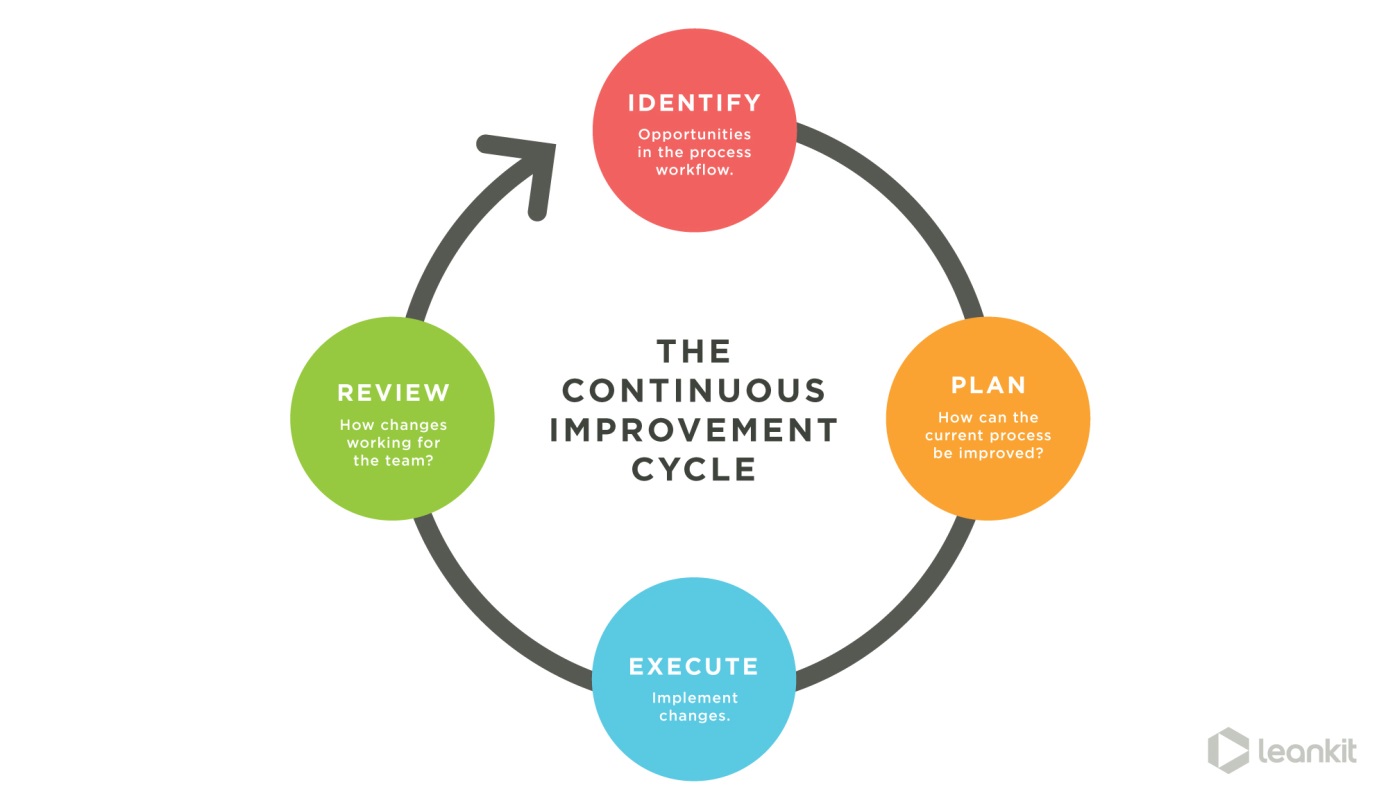
Continuous improvement, sometimes called continual improvement, is the ongoing improvement of products, services or processes through incremental and breakthrough improvements. These efforts can seek “incremental” improvement over time or “breakthrough” improvement all at once.

Among the most widely used tools for the continuous improvement model is a four-step quality assurance method—the plan-do-check-act (PDCA) cycle, also known as the Deming Cycle or Shewhart Cycle:

* Plan: Identify an opportunity and plan for change.
* Do: Implement the change on a small scale.
* Check: Use data to analyze the results of the change and determine whether it made a difference.
* Act: If the change was successful, implement it on a wider scale and continuously assess your results. If the change did not work, begin the cycle again.

Other widely used methods of continuous improvement, such as Six Sigma, Lean, and Total Quality Management, emphasize employee involvement and teamwork, work to measure and systematize processes, and reduce variation, defects and cycle times.

A schematic representation of a continuous improvement cycle is shown below:



Such a process can be implemented in any production operation, in any division, in any process step, in any factory.

# 1.10 DELEGATION PRINCIPLES

Delegation (also called deputation) is the assignment of authority and responsibility to another person (normally from a manager to a subordinate) to carry out specific activities. However the person who delegated the work remains accountable for the outcome of the delegated work.

Delegation empowers a subordinate to make decisions, i.e. it is a shift of decision-making authority from one organizational level to a lower one. Delegation, if properly done, is not abdication. The opposite of effective delegation is micromanagement, where a manager provides too much input, direction, and review of delegated work.

# 1.11 DOCUMENT CONTROL AND ADMINISTRATION

In any plan for improving efficiency or reducing losses, effective production control is important.

* Many of the weaknesses of manufacturing units, such as excessive material stocks, broken delivery promises, high non-productive time, etc. can be related to poor, or the absence of, production control.
* Effective production control leads to increased output at lower costs.
* The benefits of improved methods are often lost because of poor production control.

Record-keeping and reporting documents form part of operational management. These differ from one Sugar Mill to the next. A few examples of production documentation is provided below.

## 1.11.1 Outline of the functions of production control – documentation

At the time of issuing a sales programme, or on receipt of an order, a work order must be issued to authorize the manufacture of the products.

This order is the starting point for related manufacturing activities and should be a part of, and be processed through production control.

From the works order, a master schedule (or programme) is prepared, which entails:

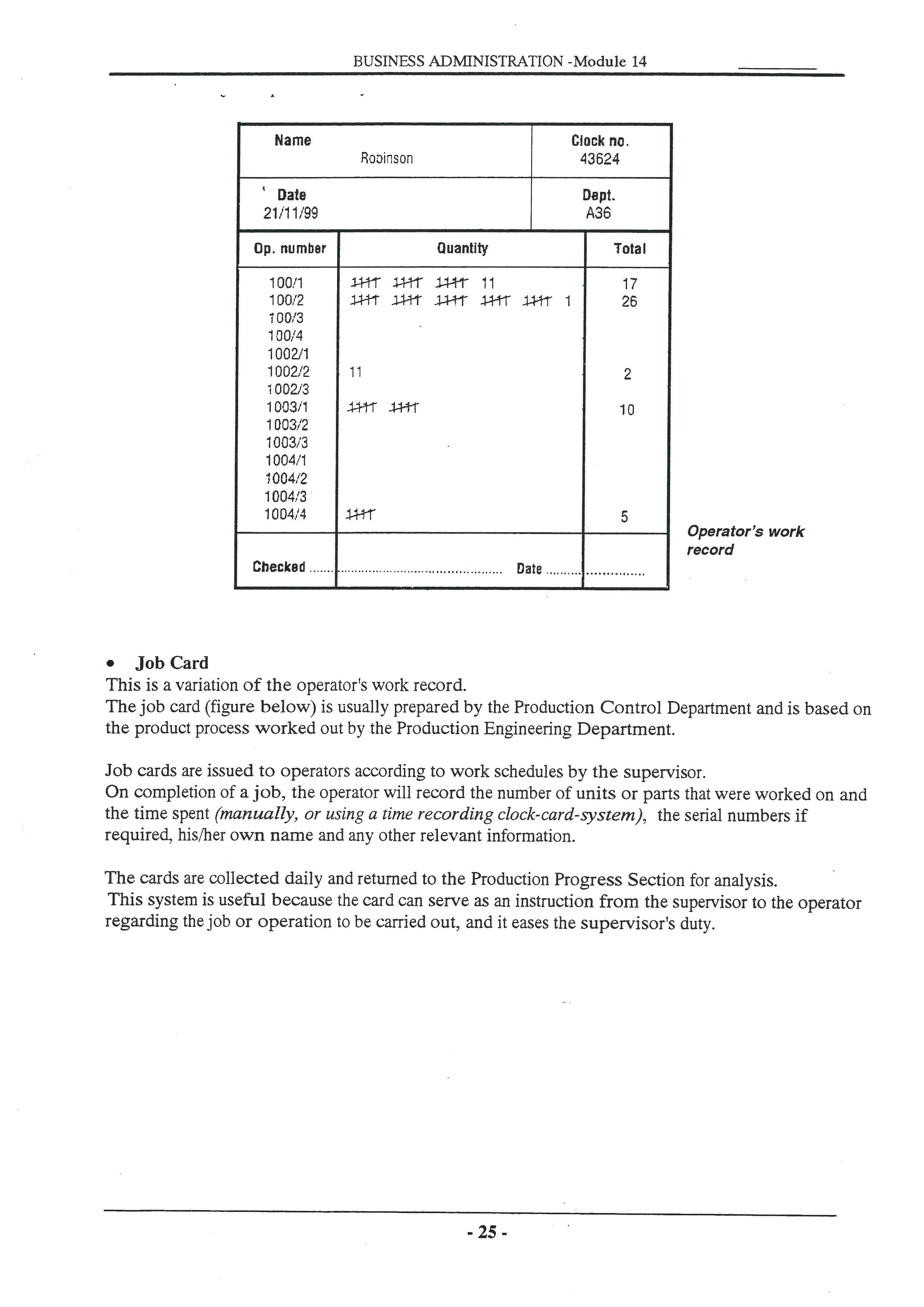
* Assessing labour and material requirements, and availability.
* Giving dates by which main elements must be ready or complete.

The master schedule will be issued and the departments concerned will be provided with as much detail as is necessary. At the same time, a copy of the master schedule will be used for material control purposes, i.e. to check the availability of raw materials, and to take action where necessary.

To set a delivery date it is necessary to know the work content of the product ordered. For this to function properly, these are some of the basic documents needed in the overall system.

### Operator’s work record

The operator can be required to maintain a log or work record (figure below) showing which operations and how many of each have been completed. It will be verified by the supervisor.

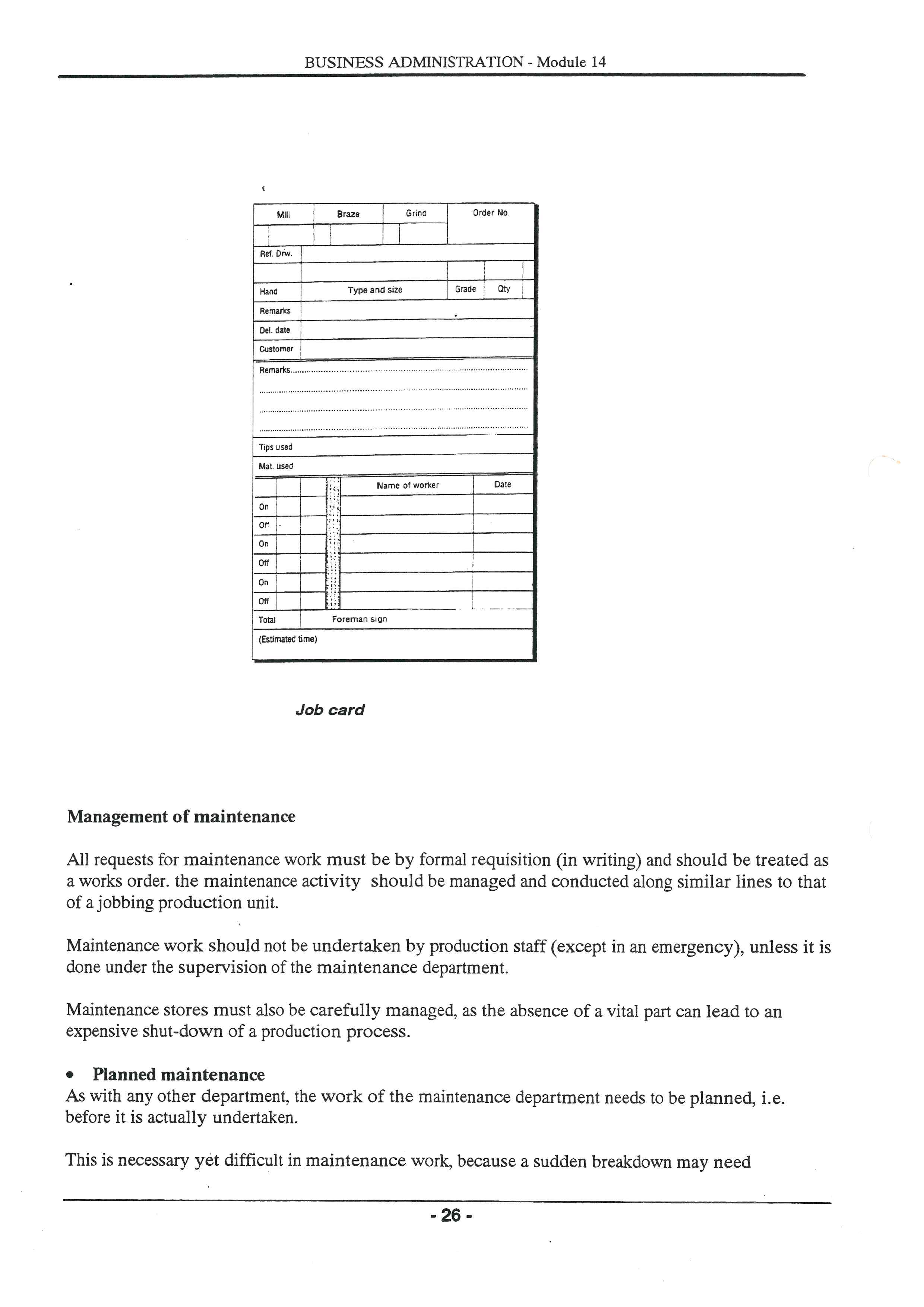


### Job card

This is a variation of the operator’s work card. The job card (figure below) is usually prepared by the Production Control Department and is based on the product process worked out by Production Engineering Department.

Job cards are issued to operators according to work schedules by the supervisor. On completion of a job, the operator will record the number units or parts that were worked on and the time spent (manually, or using a time recording clock-card-system), the serial numbers if required, his/her own name and any other relevant information.

The cards are collected daily and returned to the Production Progress Section for analysis. This system is useful because it can serve as an instruction from the supervisor to the operator regarding the job or operation to be carried out, and it eases the supervisor’s duty.



## 1.11.2 Management of maintenance

All requests for maintenance must be a formal requisition (in writing) and should be treated as a work order, the maintenance activity should be managed and conducted along similar lines to that of a jobbing production unit.

Maintenance work should not be undertaken by production staff (except in an emergency), unless it is done under the supervision of the maintenance department.

Maintenance stores must also be carefully managed, as the absence of a vital part can lead to an expensive shut-down of a production process.

As with any other department, the work of the maintenance department needs to be placed before it is actually undertaken.

This is necessary yet difficult in maintenance work, because a sudden breakdown may need immediate action and upset schedules. To limit situations such as these, allowances should be made in the maintenance department’s work schedules and planning for carrying out emergency repairs.

Most of the time of the maintenance department should be taken up with planned or routine maintenance. Such plans should cover a period of at least twelve months, during which time all normal items of upkeep should be covered.

# 1.12 CHALLENGES FOR OPERATIONAL MANAGERS

Operational managers must constantly strive to increase operational efficiency. Operational Efficiency denotes the ability of a company, organization or enterprise to deliver products or services in the most cost-effective manner without hampering its high quality, service or support. It can also be defined by the ratio of input and output of a business operation. If the operational efficiency improves in a business the ratio of output to input increases.

Streamlining the internal processes of a business can help in achieving the operational efficiency and it also enables the company to respond effectively to the ever-changing market forces in a profitable manner.

An operations manager can improve operational efficiency by curtailing the waste and redundancy and also by influencing its human resources who contribute most to the success of the company. An Operations Manager needs to know his/her workforce, the technology being used and the business processes of the company so well that he/she can utilize the best of it. Constantly improving operational efficiency allows a company to gain higher profit by reducing internal costs and as a result become more successful in the competition outside.

**1.12.1 Measuring Operational Efficiency**

Operational efficiency can be improved by measuring it through the input and output ratio. Often the management of a company measures the operational efficiency by measuring the input indicators only like the man hours for a production or production cost per unit. Though the input indicators are important but they must not be seen solely on the basis of indicators like unit production cost. A company must track and define various indicators from both the input and output sides to measure the operational efficiency properly. The efficiency of each process, or the entire factory process can be measured.

The efficiency measures of each Mill differ. Determine which measures are important for your Mill and find ways of improving those ratios.

2. Knowledge Topic 2: Employment relations management

# 2.1 THE EMPLOYMENT RELATIONSHIP

The employment relationship is the legal link between employers and employees. It is through the employment relationship, that reciprocal rights and obligations are created between the employee and the employer.

# 2.2 KEY PROVISIONS OF THE LEGISLATIVE FRAMEWORK GOVERNING EMPLOYMENT

The government has created several laws and regulations to protect both employees and employers in their labour practices. The laws and regulations of relevance to Human Resource Management are:

## 2.2.1 The Adult Basic Education and Training Act

The objective of this Act is to regulate adult basic education and training. It provides for the establishment, governance and funding of public adult learning centres and the registration of private ones. This is for quality assurance and quality promotion in adult basic education and training. (Enquiries – National Department of Education Tel: (012) 312 5911 or Private Bag X895, Pretoria, 0001)

## 2.2.2 The Agricultural Labour Act, 1993 (Act No. 147 of 1993)

This Act is about the application of the Labour Relations Act, 1956, and the further application of the Basic conditions of Employment Act, 1983, to farming activities and employers and employees engaged therein.

## 2.2.3 The Basic Conditions of Employment Act, 1997 (Act No. 75 or 1997)

This Act gives effect to the right to fair labour practices – referred to in section 23(1) of the Constitution. It does so by establishing and making provision for the regulation for basic conditions of employment. The Republic is a member state of the International Labour Organisation and there are obligations with which to comply.

## 2.2.4 Employment Equity Act, 1998 (Act No. 55 of 1998)

The Act aims to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination and by implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, in order to ensure their equitable representation in all occupational categories and levels in the workforce.

A company who employ more than 50 workers or have a turnover of more than R 2 million per year are required to draft and implement an Employment Equity Plan.

* Step 1: Appoint a senior manager who will take responsibility for the development and implementation of the plan. In smaller enterprises the farmer can personally take responsibility for this process. It should be borne in mind that this could be a time-consuming process.
* Step 2: Inform workers of the contents of the Act as well as the process that will be followed in drafting the plan. This kind of information can be given in various ways e.g. by means of pamphlets or an information session.
* Step 3: Consult with your workers over the drafting and contents of the plan. A consultative forum can be established for this purpose. Such a forum should consist of representatives from the designated group (black people, women, and the disabled) as well as the non-designated group. If there is a representative trade union in the workplace, the trade union representative should also take part in the process. Employees from all categories and levels of employment should be included in the process.
* Step 4: Analyse your existing policies, practices and procedures in order to identify barriers that prevent people from the designated groups from being appointed, promoted and receiving equal treatment. You will need to look at recruitment, pre-employment testing, job assignment, training, remuneration, disciplinary procedures, dismissal etc. Try to establish to which degree people from the designated groups are underrepresented in the various levels of employment in your workplace. Draw up a profile of your workforce and compare this with the availability of people in that field in your area. Also, compare your workforce with that of similar organisations.
* Step 5: Set targets for the promotion of people from designated groups. This may include: the removal of barriers, which prevent the appointment, training and promotion of black people, women and the disabled.
* Step 6: Decide on the duration of the plan (between 1 and 5 years) and set dates for the achievement of specific aims.
* Step 7: Allocate people, finances, time and infrastructure to the process.
* Step 8: Inform all workers about the content, duration, and targets of the plan. Also inform them who will be responsible for the implementation of the plan.
* Step 9: Monitor and implement the plan
* Step 10: Report to the Department of Labour.

## 2.2.5 Extension of Security of Tenure Act, 1997 (Act No. 62 of 1997)

The aim of this act is to provide for measures of State assistance, to facilitate long-term security of land tenure, to regulate the conditions of residence on certain land, to regulate the conditions on and circumstances under which the right of persons to reside on land may be terminated, to regulate the conditions and circumstances under which persons, whose right of residence has been terminated, may be evicted from land (This Act deals with land under State control).

## 2.2.6 Labour Relations Act, 1995 (Act No. 66 of 1995)

* This is an Act to change the law governing labour relations, giving effect to section 27 of the Constitution, and to regulate the organisational rights of trade unions.
* It promotes and facilitates collective bargaining at the workplace and at Sectoral level.
* It regulates the right to strike and the recourse to lockout in conformity with the Constitution.
* It promotes employee participation in decision-making through the establishment of workplace forums.
* It provides simple procedures for the resolution of labour disputes (this is done through statutory conciliation, mediation and arbitration – for which purposes the Commission for Conciliation, Mediation and Arbitration was established – and through independent alternative dispute resolution services accredited for that purpose.
* It establishes the Labour Court and Labour Appeal Court as superior courts, with exclusive jurisdiction to decide matters arising from the Act.
* It provides for a simplified procedure for the registration of trade unions and employer’s organisations.
* It provides for their regulation to ensure democratic practices and proper financial control.
* It gives effect to the public international law obligations of the Republic to labour relations.

## 2.2.7 Skills Development Act, 1998 (Act No. 97 of 1998)

1. The purposes of this Act are to:

* Provide an institutional framework to devise and implement national sector and workplace strategies to develop and improve the skills of the South African workforce.
* Provide for learnerships that lead to recognised occupational qualifications.
* Provide for the financing of skills development by means of a levy-grant scheme and a National Skills fund.

# 2.3 MANAGING WORKPLACE DISCIPLINE

Discipline in the workplace requires that rules, policies and procedures are drawn up by the management (or democratically) and everyone takes it upon themselves to follow these rules, policies and procedures so that tasks are accomplished in an organised and structured manner. If an employee decides to break any of the rules, or does not follow workplace policies and procedures and consequently causes loss of profit or harm to the enterprise, then disciplinary action may be required. Every workplace should also have a disciplinary procedure in place, so that the problem can be sorted out in a fair and just manner.

## 2.3.1 THE CODE

### The employee shall:

1. perform his duties in a responsible and diligent manner;
2. protect and promote the interests of the company at all times to the best of his ability with due regard to the interests of management and his fellow employees;
3. obey and execute with due care and skill reasonable instructions which are given to him;
4. observe the company’s normal hours of work;
5. observe the safety rules and regulations prescribed by management and by law;
6. keep his vehicle, utensils, equipment and work place in a good, neat and tidy order and condition;
7. wear the prescribed clothing and safety apparel;
8. promptly report damage to the property of the company;
9. take all steps to ensure that no shortage in stock, materials or cash occurs;
10. change into working clothing before he clocks in;
11. be at his station of work at the commencing time of work;
12. report immediately to the production manager (and in his absence the general manager) any injury which occurs at the workplace.

### The employee shall not:

1. commit any act or be guilty of any omission which undermines the industrial peace, growth or stability of the company or the maintenance and promotion of sound employee/management relationships;
2. absent himself from work without just cause;
3. report for duty under the influence of alcohol or drugs;
4. make use of drugs or consume intoxicating liquor whilst on duty or during breaks in the course of working hours;
5. use or be in unauthorised possession of a dangerous weapon;
6. willfully or deliberately damage or cause destruction to or attempt to damage or destroy the property of the company;
7. embark upon or be involved in or conspire to commit any act of industrial sabotage or espionage;
8. absent himself from work without permission and in the case of absence on account of illness the failure to present a valid doctor’s or registered hospital certificate which certifies and justifies such absence;
9. commit or attempt to commit theft, fraud or forgery;
10. be in unauthorised possession of property of the company or any other person;
11. fight with or assault a fellow employee or attempt to do so;
12. use abusive or insulting language;
13. clock in any employee or allow an employee to clock in on his behalf;
14. change from working clothing before the sounding of the hooter in respect thereof.

## Disciplinary principles and procedures

### Principles

1. The company and the union agree that the employer reserves the right to take disciplinary action in terms of this procedure in order to ensure the orderly conduct of the business of the company. The parties acknowledge that this procedure affords protection to employees who may be charged wit disciplinary offences.
2. Disciplinary instruments shall be:
3. Verbal warnings
4. Written warnings
5. Final written warning
6. Demotion
7. Dismissal
8. Summary dismissal
9. Employer will select the appropriate disciplinary penalty in (b) above in the light of the nature of the disciplinary offence and in accordance with the disciplinary code.
10. Written and final warning will be valid for a maximum period of six months from date of issue.

### Procedure

#### Informal procedure

The immediate supervisor will normally deal with minor breaches by verbally reprimanding the employee concerned.

Should more formal action be warranted, the following formal procedure will apply

#### Formal procedure

**Written warning**

1. Such a warning may be issued by the immediate supervisor (first reporting level). The supervisor will issue a written warning to the employee when a previous verbal warning has failed.
2. The nature of the incident that gave rise to the warning must be clearly recorded. The supervisor shall also indicate the action that is necessary to be taken by the employee redress the offence committed and the penalties that may be incurred in the event of future offences, should the behaviour of the employee fail to improve. This warning must be signed by the supervisor concerned.
3. The reasons for the action as well as its exact nature must be explained to the employee by his immediate supervisor.
4. The employee will be expected to sign the written warning and be given a copy. The original of the written warning must be retained by the company. Should the employee refuse to sign the written form, two witnesses shall verify that the warning was issued by signing the form.

**Final written warning**

1. Such a warning may be issued by the head of section (second reporting level). A final written warning shall be issued to the employee when previous warnings have failed or when a written warning is considered inadequate because of the type of misconduct
2. The nature of the employee’s misconduct must be clearly recorded and signed by the head of section. The reason for the action must be explained to the employee.
3. The employee shall be expected to sign the final warning and be given a copy. The original of the written warning must be retained by the company. Should the employee refuse to sign the written form, two witnesses shall verify that the warning was issued by signing the form.
4. Appeals against any warning must be lodged within two days of receipt thereof. A review of the warning will be undertaken by the personnel manager and departmental head.

**Demotion, dismissal or summary dismissal**

1. The above disciplinary actions may be applied by management for major breaches discipline or as a result of other misconduct when a final written warning is in operation. These disciplinary actions may be recommended by the immediate supervisor, or by any person on the second or third reporting levels after consideration of the facts,
2. Every case where demotion, dismissal or summary dismissal is a possible punishment shall be thoroughly investigated. For this purpose a disciplinary hearing shall be convened by a section manager, acting as chairman, within five (5) working days of the offence being identified, provided that the period of five(5) days may be extended by the chairman if unavoidable practical reasons exist.

Apart from the chairman, the following persons may attend the hearing:

* The employee
* The employee’s representative
* An interpreter is necessary
* The personnel manager or an officer of the company

The chairman and the employee may call such witnesses as are required.

1. The chairman shall decide whether the employee is guilty or innocent and inform the employee. After taking this decision he shall refer to the employee’s personal file and any possible evidence in mitigation and decide on the action to be taken.
2. Any penalty decided on by the chairman shall be conveyed to the employee in writing by the employer. In the case of dismissal or summary dismissal the letter must contain the reasons for the dismissal or summary dismissal.
3. Within two working days of receipt of a notice of dismissal or summary dismissal, the employee may lodge an appeal in writing to the personnel manager stating the grounds for appeal.

An appeal hearing will be conveyed within five(5) days of such an appeal being lodged. The following persons may be present at an appeal:

* The general manager,
* The personnel manager (or alliterate) plus one other representative
* The worker concerned,
* The shop steward from the worker’s constituency,
* The senior shop steward and witness.

Union officials may be present with prior arrangement, provided that the hearing should not be unreasonably delayed on the grounds that union officials are not available.

1. Should a decision of management regarding a disciplinary appeal be unacceptable, a dispute may be declared in terms of Clause 10 within a reasonable period of time.

# 2.4 MANAGING WORKPLACE CONFLICT AND GRIEVANCES

## Grievance principles and procedures

### Principles

A grievance is defined as any cause of dissatisfaction on the employee or groups of employees arising out of the working situation, or the application of conditions of employment other than that occasioned by a penalty confirmed in terms of the disciplinary procedure.

### Procedure

**Step 1**

An employee who has a grievance must first report such grievance to his immediate supervisor (first reporting level) and discuss the matter with him on an informal basis. The employee may be accompanied by a shop steward if he so wishes.

Such employee’s supervisor must endeavour to resolve the grievance and communicate the outcome to the employee as soon as possible.

In the event of the grievance not being resolved during these discussions, the employees must inform his supervisor that he wishes the matter to be treated as a formal grievance by completing a grievance form in writing.

In the event of an employee having a complaint about his immediate supervisor, he may approach his head of section (second reporting level) directly for the purpose of solving is particular grievance.

**Step 2**

In the event of the grievance not being resolved at Step 1 within a maximum of two (2) clear working days of formal grievance being lodged the employee may ask to see his head of section. The employee may be assisted by a shop steward if he so wishes. The head of section and the employee must endeavour to resolve the matter as soon as possible.

**Step 3**

In the event of any grievance not being resolved at Step 2 within a maximum of two (2) clear working days, the employee may ask to see his head of department (third reporting level). The employee may be assisted by a shop steward if he so wishes. The head of department and the employee must endeavour to resolve the matter as soon as possible.

**Step 4**

In the event that any grievance not being resolved at Step 3 within two (2) clear working days, (or longer by mutual agreement) from the date on which the grievance was referred to the head of department, the employee may elect to have the matter referred to a meeting to be attended by the following:

* The dissatisfied employee, or where a group of employees is concerned, the representative shop steward(s)
* The shop steward
* An official of the union at the request of the shop steward or of the company representatives,
* Up to four company representative and any other employees required by the company.

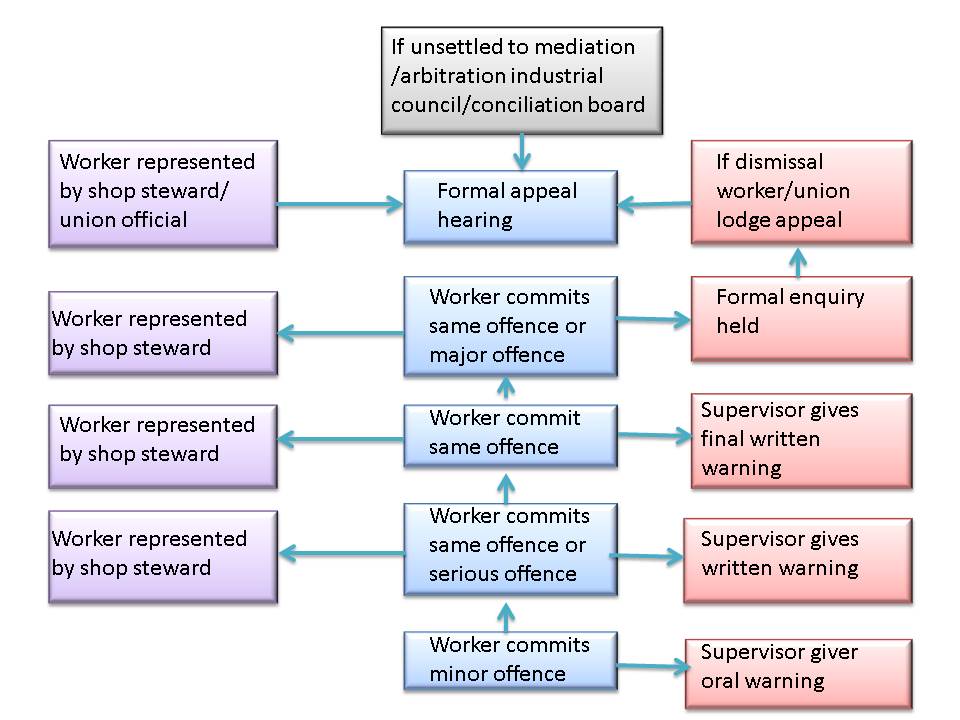
The committee must try to resolve the matter within a maximum of five (5) working days.

**Step 5**

If the grievance is not resolved at Step 4, the issue may be referred to mediation if both the company and the union agree thereto. Both parties must agree on the mediator to be appointed. Alliteratively, or after mediation has failed, the issues may be referred to arbitration if the company and the union agree thereto. If both parties agree to arbitration an agreement must be reached between them on the arbitration to be appointed. In such an event the arbitrator’s award shall be final and binding.

**Step 6**

If a grievance remains unresolved the parties may pursue any other lawful course of action.



# 2.5 MANAGING CAPACITY RELATED PROBLEMS

**Capacity management** refers to the act of ensuring a business maximizes its potential activities and production output, at all times, under all conditions. The **capacity** of a business measures how much companies can achieve, produce or sell within a given time period.

The age and condition of equipment has a direct effect on capacity, with older equipment usually reducing capacity (due to increased breakdowns and generally deteriorating performance). Managers have to make decisions about the best time to replace equipment, generally balancing the costs of buying new equipment and continuing to operate older equipment. These costs give a starting point for further analysis.

Very often the ability of an employee to achieve the capacity (work output) required is limited by their understanding of their job or because of a lack or limited skills to achieve this. On many occasions this may be related to a change in technology and inadequate training to utilise this technology. The best way of overcoming problems of capacity is by ensuring that employees are adequately trained for their tasks. Training not only provides employees with the correct skills to undertake their tasks successfully, it also provides the employee with a sense of accomplishment and improves confidence.

If capacity problems exist because of shirking, insubordination or malice, then these issues need to be dealt with by following a disciplinary procedures as outlined before. However, the root cause is often a lack of the necessary skills to do the job and this should first be investigated as a means of solving the problem.

## 2.5.1 Capacity requirement planning

Capacity planning can be undertaken in the following six steps:

* Consider demand and translate this into a required capacity for the process (how much product can the process produce at maximum capacity? What factors will influence achieving this maximum capacity?)
* Find the capacity already available in the process.
* Identify mismatches between capacity needed and that available.
* Suggest alternative plans for overcoming any mismatch (this may have to do with raw material inputs, logistics. technology available, labour skills, bottlenecks in the process).
* Compare these plans and find the best alternatives
* Implement the best alternatives and test the results.

# 2.6 ORGANISED LABOUR

South Africa’s labour legislation is among the most progressive in the world, providing for institutions to settle disputes and ensure fairness in the workplace.

Labour legislation in South Africa is the product of extensive consultation between government, labour and employers, and has established institutions to nurture sound, co- operative industrial relations. These institutions include:

* Nedlac
* CCMA
* Commission for Employment Equity
* Employment Conditions Commission
* Productivity SA
* National Skills Authority
* Unemployment Insurance Board

## 2.6.1 National Economic, Development and Labour Council

Nedlac aims to allow inclusive and transparent decision making about labour issues. Launched in 1995, it brings together representatives from all sectors of society who debate and try to reach consensus on social and economic policy issues in what the body terms “social dialogue’.

Funded by the Department of Labour, Nedlac’s work is conducted in four chambers:

* The labour market chamber,
* The trade and industry chamber,
* The development chamber, and
* The public finance and monetary chamber.

The chambers report to a management committee which oversees the work programme and administrative issues.

Organised labour is represented in Nedlac by the three main labour federations:

* The Congress of South African Trade Unions,
* National Council of Trade Unions and
* The Federation of Unions of South Africa.

There are 205 Trade Unions registered with the Department of Labour. Each has a different purpose and membership. The main aim of these trade unions is to ensure the fair and equitable treatment of their members in the workplace.

## 2.6.2 Commission for Conciliation, Mediation and Arbitration

The Commission for Conciliation, Mediation and Arbitration (CCMA) was established in terms of the Labour Relations Act of 1995 as a dispute prevention and resolution body. Although it is publicly funded, it is not controlled by any political party, trade union or business organisation.

Its policy-making structure is an 11-member governing body comprising three state representatives, three representatives of organised labour, three representatives of organised business, a chairperson and the director of the CCMA. It replaced the Industrial Court.

The CCMA’s main brief is to:

* Mediate to prevent and settle industrial disputes;
* Conciliate workplace disputes;
* Arbitrate disputes that remain unresolved after conciliation; and
* Facilitate the establishment of workplace forums and statutory councils.

Commissioners are selected on the strength of their experience and expertise in labour matters, particularly relating to dispute prevention and resolution. The CCMA has offices in major towns in all nine provinces.

Website: www.ccma.org.za

CCMA call centre: 0861 16 16 16

3. Knowledge topic 3: Financial management concepts

# 3.1 BUDGETS, BUDGETING CONCEPTS AND BUDGET CONTROL

Budgeting is an essential financial management tool which involves planning and controlling of finances for a specific period. Without a budget it will be very difficult for plant managers to know how much money can be spent on particular items, and whether it is necessary to cut costs, or find other sources of income.

But budgets are only worthwhile if they are used in the day-to-day management of the business. Annual budgets are too blunt a tool to be used as a day-to-day management tool. Monthly budgets are much more useful for this purpose. Income and direct expenditure in the Sugar Mill is seasonal by nature. Even though an annual budget can show a positive picture, it is probable that a monthly budget will show that some months might show a shortfall. The plant manager needs to be aware of this, so that these months can be planned for.

There are two ways to budget. The first is to simply base a budget on the income statement, which is useful because in this way we can project the net profit or loss that the factory is projected to generate over time, and we can also project what the balance sheet will look like at the end of each year. We can also measure the impact on the profitability of non-cash items such as depreciation. Lastly, income statement budgets allow us to project the amounts that will have to be paid for income tax.

But for day-to-day financial management, a cash flow budget is much more useful. A cash flow budget is based on the cash flow statement, and is used to project:

* When you should expect income and when you will incur expenses, based on seasonality of your enterprise.
* Whether the business will have enough cash to meet its commitments every month, or whether a loan or an overdraft facility may be necessary to carry it through. It may also be necessary to negotiate payment terms with creditors.
* The capital requirements of the business. It may, for instance, be necessary to postpone buying expensive new equipment or spend money on infrastructure. Alternatively, the plant manager can decide to rather lease capital items such as vehicles.

The cash flow budget may also indicate to management that an alternative income source is needed that provides more regular income. This may prompt management to change their product range, or to look for alternative uses for the product, or to seek new clients. The cash flow budget will also help in forecasting the costs of such an operation (i.e. the effects of implementing such a change).

Cash flow budgets help with preventing spending money impulsively on items that are not necessary or that the factory cannot afford at a particular time.

It is essential that a cash flow budget must be used as a management tool on a regular basis. Once the monthly cash flow budget for a new year has been drawn up, the actual expenditure must be recorded and compared with the budget on a monthly basis. The monthly projections for the remainder of the year should be adjusted to be a true reflection of what can be expected.

## 3.1.1 Budgeting control

The main steps in the company budgetary control process are as follows:

* Definition of objectives
* Allocation of responsibilities for achievement of objectives
* Statement of policies and strategies necessary to achieve the objectives
* Budget preparation – calculation of likely results
* Budget approval
* Implementation of policies and strategies

The Operations Manager will most likely be drawn into this budgeting control process and must be able to provide inputs as regards efficiency of the plant and measures for improvement.

# 3.2 COST ESTIMATES AND CALCULATIONS

## 3.2.1 Fixed costs vs variable costs

A cost in a business is the total money, time and resources associated with a purchase or activity. In order to produce a product in an enterprise, total costs of that production include fixed and variable costs.

Fixed costs are those costs that are constant and have to be paid regularly, although their value may change over time, for example, rent, electricity, salaries, etc. Variable costs are those that change depending on the time of year and what is happening in the factory and out on the production farms, for example, raw materials, chemicals, transport costs, packaging, etc.

Some costs are a little more difficult to classify. For instance, although salaries are a fixed cost, wages paid to seasonal workers is seen as a variable cost. Electricity is another one that is a little difficult because the amount paid for electricity can vary quite a lot from month to month, but it is still seen as a fixed cost because it has to be paid every month.

Because variable costs depend on the factory activities and inputs and outputs and therefore depend on the production plans, they can be controlled in the short term through good planning. Variable costs can also usually be allocated to particular production units or divisions in the factory. Thus, a manager can compare the variable costs (or the efficiency of their use) between different divisions on the same factory floor.

## 3.2.2 Direct costs vs indirect costs

Indirect, or overhead, costs are those which cannot be directly linked to the production of the product that the Sugar Mill sells. Examples of overhead costs are rent, water and electricity, building maintenance, insurance, administration and management salaries, stationery, levies, accounting fees, bank charges, etc. Indirect costs stay the same, no matter how much of the product is being produced or how much income is being generated from product sales. For example, salaries for management and administration staff must still be paid, whether the factory has a lot of product to sell that will generate a lot of income, or whether there has been production failures and very little income.

Direct costs are directly related to the production of the product that generates the income. This includes costs such as production salaries, chemicals, protective clothing, tools and equipment, packaging costs, fuel for logistics, etc. Direct costs can vary depending on the amount of product produced. If we use the example above, packaging costs and chemical costs will depend on the amount of product processed, and will be lower when less product is being produced.

Equipment (not production tools) and infrastructure are not seen as either direct or indirect costs, but is called capital expenditure.

## 3.2.3 The Income Statement

The income statement captures all the income and expenditure information of the enterprise and from these basic records the following figures can be calculated:

* Gross Value of Production (for each division of the enterprise)
* Directly allocatable variable cost (of each division of the enterprise)
* Sundry factory income
* Gross margins (of each division of the enterprise)
* Overhead costs
* External factor costs (e.g. interest paid on borrowed capital, cost of hired equipment)
* Net increase in value of assets over liabilities due to non-production activities (A)

Using the above figures the following figures can be calculated:

* Gross Value of Production for the factory
* Total directly allocatable variable costs
* Total Gross Margin for the factory
* Net Factory Income (NFI) – (B)
* Factory Profit or Loss (NFP) – (C)
* Growth in Net worth (D)

The methods to calculate A, B, C and D are explained below:

### Net Factory Income (NFI)

**The net factory income = Total gross margin - overhead costs (excluding return to management, interest on capital and rentals).**

Overhead costs consist of all non-directly allocatable variable costs (fuel, oil, lubricants, repairs and spare parts for vehicles, etc.) and fixed costs (depreciation, insurance on buildings and implements, licences, regular labour, bookkeeper’s fees, bank charges, telephone and postal costs, etc.).

Net factory income does not imply profit as it is generally understood, because return to management, interest on capital and rentals are not included. The reason is that the NFI can be used as a criterion for comparison between factory divisions. All external (foreign) factor costs (management, rental and interest) are excluded.

### Net Factory Profit (NFP)

Net factory profit is the NFI minus return to hired management, rentals and interest on capital, i.e. the return to external (foreign) factor costs.

The net factory profit is not that amount which is available for spending at the end of the year, since compulsory redemption of capital and income tax must be paid from this. During the course of the year amounts have already been spent on items such as voluntary redemption of capital, operational expenses and machinery and equipment (i.e. when cash has come in, it may have been applied to paying off debt, or buying new equipment, thus the profit is not necessarily available at the end of the year as cash, but in the form of less debt, or more equipment).

### Net Increase in the Value of Assets over Liabilities

The net increase in the value of assets over liabilities = Non-factory income + capital appreciation (interest earned) + capital profits + own capital inflow - capital losses - own capital outflow - income tax - disbursements – factory produce consumed (as with using bagasse as a fuel source which would bring down the use of external energy supplies).

### Growth in Net Worth

The growth in net worth is calculated by adding the factory profit (or loss) to the net increase (or decrease) in the value of assets over liabilities as a result of non-factory activities.

Please note: The growth in net worth is not an amount which is in the bank at the end of the year, but an amount which can be spent without reducing the initial own capital in the business. This can, for example, be tied up in products which still has to be sold, or in amounts which still have to be received.

Production inputs should be brought into account in the year in which they are used. Stock adjustments will therefore be necessary. The production inputs used are determined by adding all purchases to the opening stock. The closing stock and sales are then deducted from this figure.

Rental of depreciable assets is regarded as directly allocatable variable costs, while the rental of non-depreciable assets (land) is regarded as return to external (foreign) factors. This is done to ensure that comparisons between business divisions based on the NFI remain meaningful.

Capital profits are calculated by obtaining the difference between the selling price of a capital asset and the book value of that asset. If the value is positive, it represents a capital gain or profit, whereas a negative amount implies a capital loss.

Income tax may be payable on the net factory profit.

There are no specific recommendations regarding the structure of the income statement. The only requirements are that it should be presented in a systematic and logical manner, and that accounting practices should be strictly and consistently adhered to.

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| **Income Statement**   |  |  |  | | --- | --- | --- | | **A-Z Sugar Mills** | | | | **Income Statement for the Financial Year Ended 28 February 2019** | | | |  | **2019** | **2018** | | **Income** |  |  | | **Sales** |  |  | | ABC Wholesalers | 3 988 380 | 1 609 822 | | Zakes Holdings | 307 219 | 134 574 | | **Total sales** | **4 295 599** | **1 744 396** | | **Other income** |  |  | | Grant funding |  | 100 000 | | Interest received | 2 537 | 546 | | Rent received | 15 000 | 12 000 | | **Total other income** | **17 537** | **112 546** | | **Total income** |  |  | | **Expenditure** |  |  | | **Production cost** |  |  | | Electricity/energy | 262 159 | 208 257 | | Telephone | 96 000 | 78 200 | | Fuel | 66 195 | 61 865 | | Temporary labour | 29 600 | 12 750 | | Packaging | 1 067 330 | 565 011 | | Raw material | 157 296 | 98 003 | | Cleaning chemicals | 65 540 | 30 626 | | Milling salaries | 1 189 238 | 1 111 437 | | Repairs and maintenance | 17 040 | 15 926 | | Tools and equipment | 26 289 | 12 433 | | Pest control | 78 648 | 49 002 | | **Total production costs** |  |  | | **Overhead expenses** |  |  | | Accounting and audit fees | 13 100 | 12 250 | | Bank charges | 3 146 | 2 940 | | Computer expenses | 3 932 | 3 675 | | Consulting fees | 13 108 | 12 250 | | Insurance | 17 519 | 16 140 | | Legal fees |  | 12 125 | | Printing and stationery | 6 554 | 6 125 | | Salaries - Admin | 283 132 | 264 609 | | Staff training | 57 252 | 41 027 | | Telephone, postage and fax | 12 311 | 10 225 | | Travel and accommodation | 19 837 | 24 673 | | **Total overhead expenses** |  |  | | **Total expenditure** |  |  | |  |  |  | | **Net income / (loss)** |  |  | |

## 3.2.4 Cash Flow Budget

A cash flow budget is used to determine the future cash flow for a specific business and is thus an important planning tool. When planning the next few years of your operation, a cash flow budget will assist you to determine:

* When you should expect income (based on seasonality of your enterprise) and when you will incur expenses
* Whether the business will be profitable and whether some loans may be necessary to run the business (and make the profit)
* What capital requirements are needed (perhaps new equipment, new infrastructure etc.)
* How much credit (overdraft facilities) you will need and how you should schedule your repayments.

Cash flow budgets are important to management because, generally, mills have seasonal expenses and may need to plan to store product to ensure year-round sales. Furthermore, inputs such as chemicals and packaging may need to be purchased before the season starts, or equipment may need to be maintained before the season starts. Thus, a cash flow budget allows management to determine how much money they may need to borrow at different times during the year, and it will help them determine when they will have the income to repay those loans (with interest).

A cash flow budget also allows management to plan when to buy large items in times where there are cash surpluses – in this way they can avoid the expense of borrowed money. They could also alleviate times of cash shortage by selling unnecessary capital items (like old tools,trucks or equipment). A cash flow budget also allows management to choose which products to produce to ensure that factory income is more regular (Some mills have expanded their product ranges to include more speciality or confectionery-type products).

A cash-flow budget indicates the following:

* When and how much cash income is received
* When and how much cash expenses are incurred
* When cash surpluses and cash shortfalls occur
* When and how much credit should be obtained
* What the credit is needed for
* The time and amount of repayments

The cash flow budget concentrates on the viability of various plans and is a useful planning tool.

### Advantages of cashflow budgets

* It provides a guide for factory expenses. Management knows how much money will come into the business and when this will happen and how much will be spent and on what it will be spent.
* It helps to forecast and plan large expenses.
* It helps to prevent spontaneous and impulsive purchases by management.
* It facilitates communication between the financier and management.
* Bank managers often require information such as is contained in the cash flow budget before loans are granted.

### Disadvantages of cashflow budgets

* Information has to be obtained from several sources
* Unforeseen future events can disrupt the financial plan. However, any plan is better than no plan at all.
* Compiling a cash flow budget is time-consuming.
* If the information used was unreliable, such a budget can be misleading rather than helpful.

All expected cash receipts and payments are recorded in the cash flow budget. The statement concludes with a bank balance which reflects the factory’s positive or overdrawn bank balance month by month. In order to draw up the budget, management has to estimate which cash receipts will occur when, which payments will be made in cash and which debt repayments will have to be made during the year. Only actual cash transactions and cash amounts are indicated on the cash flow statement. Thus, the trading-in of capital items on new ones (such as trucks) is not indicated, because the company does not receive cash for a transaction of this nature. Interest payments and debt redemptions are indicated, since they are cash payments which influence the company’s bank balance.

The cash flow budget can cover a period of a month, a year or even longer. The frequency and size of the cash flow budget, as well as the purpose for which it was drawn up, are important here. If normal factory activities are envisaged for the following year, a monthly budget covering a year could be drawn up. If extensions such as the purchasing of new equipment are intended, a summarised annual budget can be compiled for a number of years.

Due to the numerous uncertainties to which factory income and expenditure are subject, it is difficult to draw up a cash flow budget accurately for a long period. It is therefore necessary to review the budget regularly and adjust it as more specific details become available.

# 3.3 COST MANAGEMENT

It is of utmost importance to ensure quality products are produced at all times to minimize the risks of incurring unnecessary costs that might occur due to:

## 3.3.1 Waste

Definition: The production of unwanted materials as a by-product of economic processes. Waste could be caused by

* Poor work performance,
* Errors in the manufacturing process,
* Poor organization and
* Poor communication

Waste can occur:

* In the factory,
* Between divisions of the factory and
* Between raw material suppliers (cane farmers) and the factory.

Waste can be considered the manufacture of materials that have no economic value to the business, or materials that have a reduced income value to the business, or materials that create a financial burden to the business (i.e. the cost of its removal or destruction).

Wastes in a Sugar Mill can be classified as:

* Defects (Information and products that are incomplete or inaccurate)
* Overproduction (Making more of something than is needed)
* Waiting (for information, equipment, materials, parts or people)
* Non-Utilized Talent (Not properly utilizing people’s experience, skills, knowledge or creativity – employees unable to make decisions, employees not fully trained, skilled employees doing unskilled tasks)
* Transportation (unnecessary movement of materials, people, information or equipment),
* Inventory (Accumulation of parts, information, applications, product which is beyond what is required by the customer),
* Motion (Any movement by people that is not of value such as unnecessary walking between equipment, switching equipment applications)
* Extra-Processing (Any steps that do not add value in the eyes of the customer – extra detail, extra features, extra reporting to achieve the end result).

(This acronym spells **DOWNTIME**)

## 3.3.2 Re-work

Definition: Correcting of defective, failed, or non-conforming product, during or after inspection. Rework includes all follow-on efforts such as remelting, re-packaging, etc.

There are several reasons why a sugar product could be found to be defective or requiring rework:

* Equipment malfunction or human error
* Product specification not correctly communicated (at all or in a timely manner)
* Product specification manufacturing change not implemented properly
* Product damaged in transit (during delivery to client)
* Product damaged in use (perhaps spoiled by water damage in a warehouse)

**How to reduce rework:**

* Update and maintain a daily Operational Management Plan which speaks to the needs of management and clients on a daily basis (or jobs basis).
* Communicate quickly & completely with the manufacturing team. Be available. Changes mid-stream cause significant disruption if not planned and managed correctly.
* Be proactive. Preempt quality control issues by taking a proactive rather than a reactive position. Make regular factory inspections to identify problems and to look for ways to improve processes. You want to find the root cause of the issue and resolve it as early and as simply as possible. Could the problem be solved by:
  + Acquiring new equipment and fixtures?
  + Improved employee training?
  + Software upgrades or additions?
  + Greater attention during manufacturing stages?
  + More emphasis on pre-production processes?
  + Revised packaging/handling procedures?
* Implement and emphasize quality control procedures. The stringent application of the Safety, Health, Environment, Risk and Quality Control policies of the factory will assist to reduce such incidences.
* Create a Scrap Materials Plan. It is always preferable to rework the product, but sometimes scrapping is unavoidable. In the event you need to scrap, try to reduce the amount of waste as much as possible. Depending on the material or location:
  + Can you avoid dumping fees?
  + Can the product be repurposed?
  + Can parts of the product be recycled?

## 3.3.3 Recall

A product recall is a request from a manufacturer to return a product after the discovery of safety issues or product defects that might endanger the consumer or put the manufacturer or clients (such as beverage companies) at risk of legal action.

A recall is an effort to limit ruination of the factory’s image and limit liability for negligence, which can cause significant legal costs. It can be difficult, if not impossible, to determine how costly can be releasing to the consumer a product that could endanger someone's life and the economic loss resulting from unwanted publicity.

Recalls are costly. Costs include having to handle the recalled product (including transport costs), replacing it, the cost of investigation of the rejected or recalled product and possibly being held financially responsible for the consequences of the recalled product.

The stringent application of the Safety, Health, Environment, Risk and Quality Control policies of the factory will assist to reduce such incidences.

# 3.4 FINANCIAL SOURCE DOCUMENTS

Every Sugar Factory is a business enterprise. This means that a business owner/manager is in this business so that he can make money. To be able to assess whether the production system (the factory) is viable at any time, records must be kept of all financial transactions. These records can then be used to assess how the business is doing and to plan for the future of the business. The following table shows the source records needed by a factory, the financial statements that can be generated by these documents, and the financial analyses that can be done to interpret the results.

|  |  |  |
| --- | --- | --- |
| Gather, arrange and process information | | Analyse and interpret the results |
| Record statements | **Financial statements** |
| * Physical inventory * Depreciation schedule * Record of accounts receivable and accounts payable * Record of receipts * Record of expenditure * Labour records * Machinery reports * Physical production records | * Balance sheet * Income statement * Cash flow statement | * Financial analyses * Solvability * Liquidity * Profitability * Diagnostic analyses * Investment standards * Labour * Machinery * Product |

1. Knowledge topic 4: Personnel management concepts

# 4.1 BASIC CONDITIONS OF EMPLOYMENT AND CONTRACTS

## 4.1.1 Introduction

Every employment contract must adhere to the Basic Conditions of Employment as a minimum. Further specifications can be added (but not deducted) from these specifications for a particular line of work or position within a company.

## 4.1.2 The Basic Conditions of Employment Act, 1997 (Act No. 75 or 1997)

This Act gives effect to the right to fair labour practices – referred to in section 23(1) of the Constitution. It does so by establishing and making provision for the regulation for basic conditions of employment. The Republic is a member state of the International Labour Organisation and there are obligations with which to comply.

Labour Law in South Africa is considered by some as restrictive of job creation and not conducive to active employment by employers. Others however, feel that Labour Laws are so well-formulated and clear that it is very easy for an employer to know what the rules are.

### Working hours

The act regulates the weekly and daily maximum working hours of employees. There are different hours for different types of work, namely:

* Weekly maximums
* Daily maximums
* Meal intervals
* Overtime
* Work on Sundays
* Work on public holidays

## (2) Specific exclusions

* Vacation leave

Vacation leave is, in terms of common law a, privilege. This means that, as a matter of course, the employee is not entitled to any paid vacation leave. Parties may agree at conclusion of the contract that the employer will grant the employee a certain number of days ‘vacation leave’. This leave may be taken only after completion of a certain prescribed period (e.g. a year’s service).

* Sick leave

Sick leave is not paid leave in terms of the common law either. The employee is paid only for the period actually worked. The parties may agree on paid leave when they conclude their contract of employment.

If the period of sickness is brief, the employer may not terminate the services of the employee. If, however, the employee is absent for an unreasonably long period the employer may have the right to dismiss – this differs from instance to instance.

Once again, rules pertaining to sick leave have been created by legislation. The Basic Conditions of Employment Act, in section 22, provides for 30 to 60 working days’ paid sick leave during a three year cycle, depending upon whether the person works a five-day or six-day week.

* Annual leave

Annual leave is leave with full pay and is calculated over a 12-month cycle. An employee is entitled to a minimum of 21 consecutive days’ leave per year. The parties may conclude an agreement which provides for leave of at least one day for every 17 days of completed work or one hour for every 17 hours worked. Leave is extended by one day for every public holiday which falls within the leave period.

Annual leave must be granted to the employee within the first six months of completion of the leave cycle or in accordance with an agreement between the parties. Leave must be taken and may not be ‘exchanged’ for money, but if an employee has leave upon the termination of employment, such leave must be paid out. Annual leave my not run concurrently with a period of notice to terminate services or any period of leave the employee is entitled to, except during a period of unpaid leave. This means annual leave may not run concurrently with a period of paid sick leave, maternity leave or family responsibility leave that the employee is entitled to.

* Maternity leave

An employee is entitled to four (4) consecutive months’ maternity leave. Maternity leave commences at 4 weeks before the expected date of confinement or on a date necessitated by the employee’s health or that of her unborn child, unless a medical practitioner of midwife recommends otherwise. An employee may not work for 6 weeks after the birth of her child, unless a medical practitioner or a midwife certifies that she is fit to do so. An employee who has a miscarriage during the third semester or bears a stillborn child is entitled to maternity leave for six weeks after the miscarriage or stillbirth. An employee is required to notify her employer four weeks in advance and in writing of the intended date of commencement of maternity leave and the return date of work. Maternity leave is unpaid leave. However, an employee is entitled to claim maternity benefits in terms of the Unemployment Insurance Fund Act.

* Family responsibility leave

Employees are entitled to three (3) days’ paid leave per annual leave cycle. This leave is granted for the birth, illness or death of a child or death of a spouse, life partner, parent, grandparent, grandchild or sibling. Only employees who work for four (4) days or more per week are entitled to this leave and they become so entitled once the first four months of employment have been completed. Before paying the employee for family responsibility leave, the employer may require proof of the event for which leave was sought.

## 4.1.3 Enforcement of the Act

The Minister of Manpower appoints inspectors in terms of the Act. These inspectors have wide powers in order to see to it that the provision of the Act is complied with.

# 4.2 CONTRACTS

A contract is a legal document, a binding agreement between two or more legal persons that is enforceable by law.

A legal person is a natural person (an individual) or a group of individuals such as a partnership, a company or a close corporation that has full contractual capacity. That means the capacity to conduct legal acts. A legal act is an act in which the law recognises the legal consequences as those intended by the individual.

Individuals under the age of seven years old, mentally retarded individuals and individuals under the influence of liquor or drugs have no contractual capacity. They cannot enter into any legal activity such as closing a contract. A minor (that is an unmarried person under the age of 21, but who is above the age of seven years or insolvents have limited contractual capacity and must be assisted or represented by their parents or guardians.

A contract may not be illegal. In other words a contract cannot stipulate actions that are contrary to the law.

Most legal contracts must be in writing.

A contract must demonstrate that there is consensus between the contracting parties regarding the contents of the contract. A party to a contract shows consensus by signing the contract.

Contracts are important for any kind of business. They can be very simple. Basically a contract is an agreement reached between two consenting parties which is put in writing. The purposes of a contract are:

* Provide certainty: A properly worded contract lets each party know what they will be receiving, and what they will be providing. The parties can agree as to the detail in which these offers or receipts are stipulated.
* To avoid disputes: contracts require that both parties think about the issues to be contained in the contract beforehand. It turns their minds to avoiding problems, or to setting up methods to resolve disagreements at a later stage. This often avoids the problems or arguments completely.
* To balance the risks: In an ideal contract, each party should feel that it has received as much as it has given. This is not always accomplished, but at least a contract can decide what is most important to them.

Employment contracts explain the terms and conditions of employment and the remuneration that will be paid for a clearly defined set of tasks.

# 4.3 JOB ANALYSIS AND DESCRIPTIONS

## 4.3.1 Job descriptions

Once employed, each employee is given specific tasks and responsibilities in the workplace. Before they start working they sign a contract agreement. In that contract agreement there is a section highlighting their roles and responsibilities within that particular organisation or workplace. This is called a ‘job description’. A job description should guide the employee to not only meet the employer’s expectations, but exceed them.

A specific job description usually contains identification information, and a job summary, job duties and responsibilities.

## Identification information

The first part of a job description offers:

* The job title
* The location of the job (department or branch etc.)
* Reporting structure
* The compiler of the job description
* The date of the job analysis
* Verification (name of person authorising , or approving the job description)

## Job summary

This is a short written statement that concisely summarises the purpose of the job.

## Job duties and responsibilities

This section must be comprehensive and accurate, as it influences all other parts of the job description. Job duties and responsibilities explain what is done, how it is done, and why it is done. Some organisations combine the job description and job specification, and the skills required to do the job successfully, instead of the responsibilities and duties. The resulting document is not a job description in the true sense of the word, but rather a skills profile.

## 4.3.2 Job Analysis: Things to consider when compiling a job specification

* List the three (3) to five (5) most important responsibilities of the job, beginning with an action verb.
* List one, or more, of the important job duties associated with each responsibility, also starting with an action verb.
* Write clearly, unambiguously, and concisely but do not omit any important responsibilities or duties.
* Any job performance standards, time limits, and abnormal working conditions must be identified in the section of the job description.

# 4.4 PERFORMANCE MANAGEMENT

Managing personnel concentrates on certain administrative human resource categories. It includes job analyses, strategic personnel planning, performance appraisals and benefit coordination. It also involves recruitment, screening and new employee orientation and training. Lastly, it involves wages, dispute resolution and other record keeping duties

## 4.4.1 Performance evaluation

Personnel evaluation should be done in the workplace in a manner that will grow the employee instead of demoralizing that particular individual. Personnel evaluation should be done to ensure that employees are contributing towards the goals of the company, while reviewing the employee’s current job description, and establishing goals for the future. The evaluation process should encompass the reviewing and discussion of job expectations, objectives, and duties, to ensure that the evaluation relates to the specific responsibilities, job assignments, and standards that have been passed on to the employee for that specific job. Performance evaluation should take place annually or more frequently if deemed necessary.

An employer cannot expect an employee to improve his work performance if he/she does not know that they are doing something incorrectly or ineffectively. In this regard it is then important to train employees in the importance and purpose of performance evaluation so that it becomes a part of the year that an employee looks forward to – not a procedure that is feared.

To ensure fairness, the same process should be followed for all employees. Often a performance evaluation process entails:

* The completion of a self-evaluation form by an employee
* The completion of an evaluation form by a line-manager
* A discussion between the employee, the line manager and the human resource officer or company manager regarding the responses captured in the self-evaluation form and evaluation form
* Feedback to the employee:
* Agreement on remedial action if required
* Recommendations for improvements
* Praise for work well done (sometimes this can be in the form of improved remuneration or benefits) review period.

**Here are some of the topics that can be used in the evaluation process:**

1. Completion of task given: How effective is the individual in terms of meeting the goals and finishing tasks in time?
2. Teamwork: How reliable is the individual to members of his team?
3. Planning: Is the individual effective in terms of anticipating needs, establishing objectives, understanding goals and procedures, and meeting budgets and schedules?
4. Flexibility: How well does the individual adapt to a changing work requirement?
5. Communication: Does the individual provide information to others on a timely basis within and outside the company? How effective is the individual in dealing with clients, both inside and outside company?
6. Costs: Is the individual effective in terms of operating at lowest cost?

Guidelines for personnel evaluations should be recorded and provided to the employee in policy statements, negotiated agreements, and/or personnel evaluation manuals, so that evaluations are consistent, equitable, and fair.

Access to evaluation information should be limited to the persons with established legitimate permission to review and use the information, so that confidentiality is maintained and privacy protected.

The evaluator should respect human dignity and act in a professional manner, so that the employee's self-esteem, motivation, professional reputation, performance, and attitude toward personnel evaluation are enhanced.

Personnel evaluations should encompass both strengths and weaknesses, so that strengths can be built upon and weaknesses addressed as soon as possible.

Personnel evaluations should inform users (interview panel or supervisors or managers) and employees of areas in need of professional development, so that all the workplace personnel can better address the missions and goals of that particular workplace, fulfill their roles and responsibilities, and meet the needs of the clients.

## 4.4.2 Remuneration

The aim of a remuneration policy is to ensure a reward system that recognises individual team contributions to achieving companies’ objectives and motivates high levels of performance. Also the aim is to communicate and support organisational values and strategies and creates focus on key organisational objectives through the performance management system. It allows a Company to compete effectively in the labour market and to recruit and retain high calibre staff. This will also ensure fairness and equity in the Company.

An effective remuneration policy allows a Company to pay market-related remuneration commensurate with the Company’s resources and the ability to pay i.e. affordability and other factors are taken into account when deciding on an employee’s remuneration. Remuneration should be determined in terms of a clearly defined policy administered by a remuneration committee comprised of elected representatives, a remuneration expert and the Company Manager.

# 4.5 TRAINING MANAGEMENT

A skilled workforce is an essential requirement for the growth of any country’s economy. Therefore, training and development is becoming increasingly important. It is also important to create a career plan for each staff member. This will assist them and their management to choose the correct training courses for their career development. For example, potential managers should attend courses in financial literacy so that they can work with budgets and other financial information.

Never underestimate the importance of the training and developmental needs of your employees. Skills development and being challenged are two of the primary motivators of human beings. Well-skilled employees should be constantly encouraged to attend training that will benefit both themselves and the company.

The purpose of training and development of employees include:

1. Improved performance

Employees who perform poorly because of skills deficiencies need to be sent for training. Sometimes a new or newly promoted employee does not possess the skills and abilities required to be competent on the job. Therefore training will be necessary to fill the gap between the employee’s predicted and actual performance.

1. Satisfy personal growth needs

Training and development can play a dual role by providing activities that result in both greater organizational effectiveness and increased personal growth for all employees. For instance, most employees are achievement-oriented and need to face new challenges on the job.

1. Update employee’s skills

Factory managers must ensure that they are always aware of technological advances that will make their company function more effectively. Employee skills must be updated through training so that technological advances are integrated into the business.

1. Solve organisational problems

Training is expected to solve managerial problems such as personal conflicts, unclear policies and standards, scheduling delays, inventory shortages, high levels of absenteeism, labour management disputes and a restrictive legal environment. Training personnel, universities and training and development providers assist employees in solving problems and performing their job more effectively.

1. Orient new employees

During the first few days on the job, new employees form their initial impressions of the organisation and its managers. These impressions may range from favourable to very unfavourable, and may influence their job satisfaction and productivity. Therefore there is a need to orient new employees to the organization and the job.

1. Prepare for promotion and managerial succession

One way to attract, retain and motivate personnel is through a systematic programme of career development. Training enables an employee to acquire the skills needed for promotion, and it eases the transition from the employee’s present job to the one involving greater responsibilities. Businesses that fail to provide such training often lose their most promising employees.

1. Fostering the principles of “life-long learning” in an organisation

The human resource manager should ensure that principles of learning are not neglected because this may lead to training and development that fails to achieve desired results. Therefore, it is important for the employees to become familiar with the basics of adult learning.

1. Motivation

Sometimes the need for training and development is not clear to employees. They may consider it a waste of time and resist being taken away from their jobs. Therefore it is important to motivate employees and show them how the training will help them accomplish personal and organizational growth. It is also important to involve the employees when planning the training that they should undertake.

1. Participation

Another way of inspiring employees is through active participation in the training and development process. Active participation in the learning process through conferences and discussion enables employees to become directly involved in the act of learning.

1. Feedback

Feedback on progress in courses reduces anxiety and lets employees know what they must do to improve.

1. Organization

Learning material should be organized to address gaps in that particular field of work.

1. Repetition

Practice is important whether the skills being learned are technical (e.g. operating an evaporator) or behavioural (e.g. communication or interpersonal skills). After some time has passed, learners can be asked to repeat the behaviour or information as a way of recalling and refreshing the prior learning.

1. Application

Job training is useless if what is learned is not applied at work.

Some ways in which learning can be transferred in the workplace can include:

1. Maximize the similarity between the training and development and the job.

2. Provide as much experience as possible with the task being taught.

3. Provide for a variety of examples when teaching concepts or skills.

4. Label or identify important features of a task

5. Make sure the training and development is rewarded on the job.

6. Design the training and development so that the learners can see its applicability.

7. Use questions to guide learners attention.

# 4.6 MENTORING AND COACHING

**Coaching and mentoring** have become increasingly **necessary** in today's work environment. It is being used for both personal and professional development. **Mentoring**/**Coaching** helps to build a positive and concrete change in individuals and to boost the transfer of knowledge from the **coach**/**mentor** to the individual. In the Sugar Mill environment where equipment capital costs are huge, it is imperative that new employees are adequately supervised and assisted to complete their tasks safely and to quality standards. No amount of theory alone will prepare a factory worker for the rigours and requirements of the factory floor and his/her place and function in it. The assistance of a dedicated mentor or coach will provide the new recruit with the confidence to ask questions, and to receive advice and direction regarding their responsibilities.

# 4.7 RECRUITMENT AND SELECTION

The basic ambition of recruitment is to find, at the least cost, competent applicants who will remain with the organisation. It is imperative to get people who are qualified and not people who are under-qualified or overqualified (They might get frustrated and eventually leave the company). Sometimes you may be very positive about an applicant that you have recruited but it turns out to be an unsuccessful recruitment for reasons you did not consider at the time of the interview. In order to ensure that the recruitment exercise is worthwhile, a cost benefit analysis can be undertaken. Costs that should be taken into consideration when undertaking a recruitment exercise includes:

* The cost of advertising vacancies
* The cost of reviewing applications
* The cost of interviewing applicants
* The cost of testing/assessing a large group of applicants
* The cost of orienting and training new applicants

These costs should then be compared to the benefit that the employee will bring to the enterprise. Is the position a key position to increase the income, market penetration and sales of the enterprise? Would the employee bring about cost savings by, for example, reducing staff turnover? Would the new employee free up the time of a more costly employee?

When this Cost/Benefit analysis is done you will see that it makes sense to spend a bit more money on the recruitment of a key employee as compared to an employee that will not make a strategic impact on the bottom-line (for example, a gardener).

When important employees are recruited it makes sense to do a thorough recruitment exercise. Take time to assess ALL applications, spend enough time interviewing each short-listed candidate. Take the time to call references provided on CV’s. Organisations often do not know, except in extremely costly situations, how much potential they have lost when they reject an applicant who could have been a successful employee.

A recruitment policy should be aimed at attracting and retaining high calibre employees who are suitably qualified to perform the inherent requirements of the job in general and specific project tasks and assignments in particular. It should also be aimed at facilitating effective and efficient recruitment and selection processes. It should also align with all legal and ethical requirements and ensure that recruitment and selection decisions take objective criteria into account and that procedures are fair. Finally, it should ensure that it promotes an equal opportunity in the workplace by eliminating unfair discrimination.