

C. Chaplin



**Study Guide**

# Business Studies

**Grade 11**

# Contents

Introduction to Business Studies	5	
<b>Term 1</b>		
Introduction	6	
Topic 1	Influences on the business environments	7
	Questions and answers	12
Topic 2	Challenges of the business environments	15
	Questions and answers	23
Topic 3	Adapting to challenges of the business environments	26
	Questions and answers	34
Topic 4	Contemporary socio-economic issues	37
	Questions and answers	42
Topic 5	Business sectors	44
	Questions and answers	48
Topic 6	Benefit of a company over other forms of ownership	50
	Questions and answers	62
Topic 7	Avenues of acquiring a business	67
	Questions and answers	74

## Term 2

Introduction		77
Topic 1	Creative thinking and problem-solving	78
	Questions and answers	85
Topic 2	Stress and crisis management	87
	Questions and answers	93
Topic 3	Transforming a business plan into an action plan	94
	Questions and answers	98
Topic 4	Setting up or starting a business	100
	Questions and answers	104
Topic 5	Professionalism and ethics	105
	Questions and answers	108
Topic 6	Presentation of a business plan	109
	Questions and answers	115
<b>June exam and memo</b>		<b>117</b>

## Term 3

Introduction		132
Topic 1	Entrepreneurial qualities and success factors	133
	Questions and answers	136
Topic 2	Citizenship roles and responsibilities	137
	Questions and answers	141

Topic 3	Marketing function	143
	Questions and answers	166
Topic 4	Production function	168
	Questions and answers	174
<b>Term 4</b>		
	Introduction	176
Topic 1	Team dynamics and conflict management	177
	Questions and answers	184
Topic 2	Introduction to human resources	186
	Questions and answers	195
<b>November exam and memo</b>		<b>197</b>

# Why Business Studies?

Business Studies is an important subject to study when you would like to follow a career in business management, finance, administration or marketing. Business Studies will also help you with many areas of your life and with whatever career you would like to pursue.

Business Studies will help you to:

- analyse the impact of changing and challenging environments on business practices,
- e.g. the increasing fuel price and the impact it has on businesses worldwide; devising strategies to cope with these challenges
- design and use a research instrument to assess needs and wants
- encourage creative thinking to generate entrepreneurial opportunities, e.g. opening an ice cream stall on Margate beach during peak season
- process and analyse data for decision making
- develop an action plan from a business plan
- understand the legal implications of contracts
- understand the implementation of the employment equity act and labour laws
- demonstrate and apply a range of management skills in all eight management functions: purchasing, production, financial, marketing, public relations, human resource management, information management and general management

It is an exciting subject – focused on your future! Business Studies will help you to plan ahead and to maintain a good work ethic. This means that you are going to have to work quite hard but not without rewards.

This Study Guide eBook was designed to help you to reach your goals for Business Studies. It is summarised in point form to make it easier for you to memorise. An effective way to use the Study Guide is by using it together with the SQ3R study method:

<b>S</b> Study	Use this Study Guide to get to know your work. Study small sections at a time and then continue to the next section. Use mindmaps and other visuals to make it easier for you to remember your work.
<b>Q</b> Questions	After every topic, there are questions that you can use to test your knowledge. Make sure that you can answer all of these questions.
<b>R</b> Read	Of course there will be questions that you will not be able to answer immediately. Go back to these sections and read them again.
<b>R</b> Recall	Check to see if you can recall the answers of questions you were unable to recall before.
<b>R</b> Revise	It is important for you to revise. Have a look at your summaries again. This can be done early the morning before you write your exam or test.

We hope you will enjoy this Study Guide and that it will help you to pass exams.

Aim for success!

**The Author**

# Term 1 Introduction

## Topic 1 Influence on the business environments

Topic 1 introduces you to the influence the business has over its business environments.

## Topic 2 Challenges of the business environments

Topic 2 gives an overview of the challenges that arise from the different environments. The challenges are linked to the different elements of the micro, market and macro environments.

## Topic 3 Adapting to challenges in the business environments

Topic 3 deals with ways a business can adapt to challenges in the internal and external environments. This depends on the control or influence the business has over the environment (Topic 1) and how serious and complicated the challenges are (Topic 2).

## Topic 4 Contemporary socio-economic issues

Topic 4 deals with the impact of contemporary socio-economic issues on the business and productivity. The topic also investigates the developments of industrial relations that relate to existing business practice. These include industrial action such as strikes, lock-outs and go-slows, as well as the history, role and functions of trade unions.

## Topic 5 Business sectors

Topic 5 introduces you to the different sectors of the economy: primary, secondary and tertiary, as well as to the links between these sectors.

## Topic 6 Benefit of a company over other forms of ownership

Topic 6 describes the benefits of forming a company over other forms of ownership. In Grade 10 you were introduced to the range of legally recognised forms of business ownership. In this topic, these various forms of ownership are described in greater detail, comparing them directly with each other in terms of their ownership, structure and legal requirements.

## Topic 7 Avenues of acquiring a business

Topic 7 introduces you to different ways to acquire a business. The two basic ways are starting a new business or buying an existing business. These are extended by the options of franchising, outsourcing and leasing of assets. The advantages and disadvantages of the different options are explained.

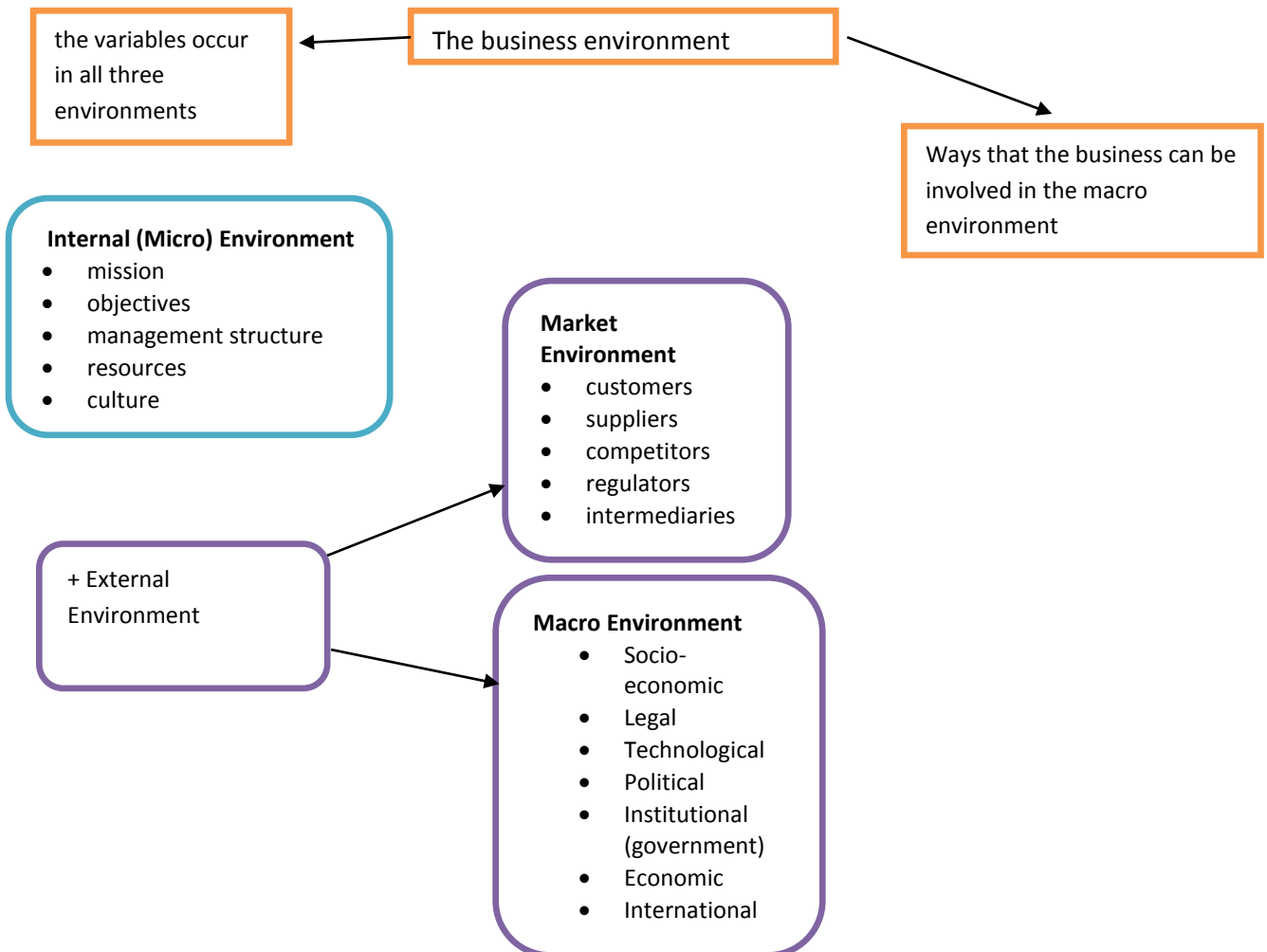


# Topic 1 Influences on business environments

## Overview

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- The micro, market and macro environment affect each other. Anything that can change in the environment is called a variable.
- The enterprise has most control over the micro environment, less control over the market environment and even less control over the macro environment.
- It is beneficial to the enterprise to be involved in the macro environment.

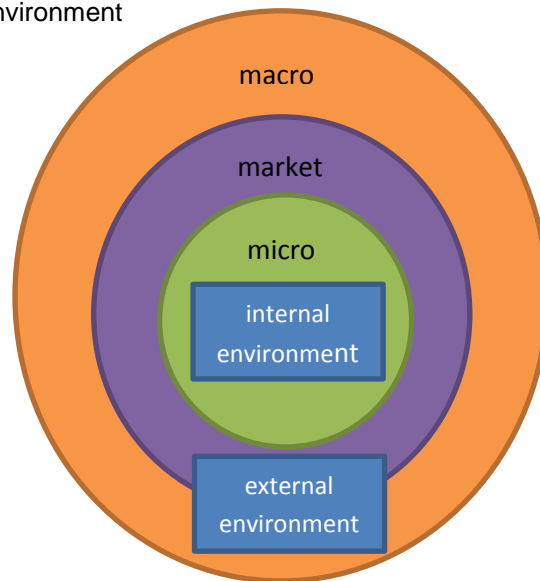


# 1. Control factors in the business environments.

The business environment is made up of all those variables that can influence the survival of an organisation.

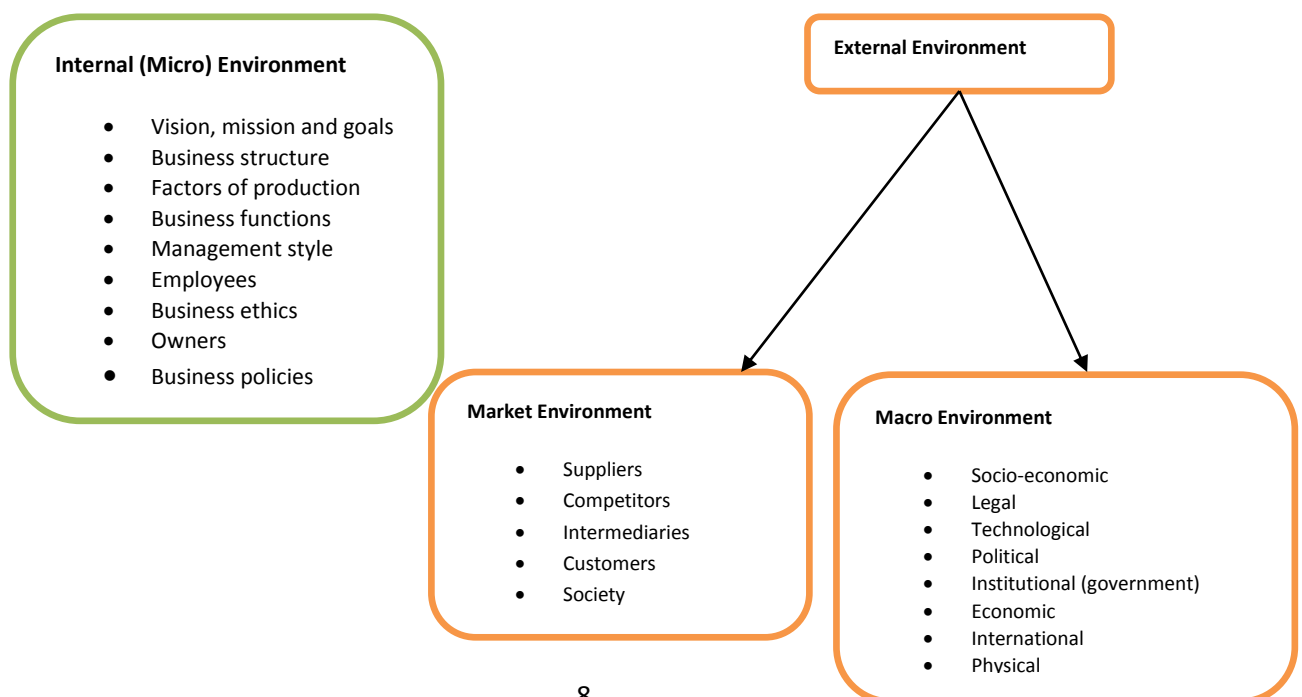
These variables are divided into:

- The micro environment
- The market environment
- The macro environment



- The internal environment consists of the **micro** environment of the businesses that is the actual business itself.
- The external environment consists of the **market** and **macro** environments of the business. The market environment is its operating environment and the macro environment is the general environment surrounding the business.

## 1.2 Factors in the environments that affect the organisation.





## 2. Characteristics of the business environment.

- The business environment is made up of many parts.
- All the parts are interdependent and interrelated.
- The business environment is uncertain and unstable and can vary from time to time.
- The business environment is dynamic and unstable. Businesses must be prepared to be both proactive and reactive, they must adapt to changes.
- Changes in the business environment can affect different businesses in different ways; a change can be positive for one business and negative for another.
- Changes in the business environment can have both short term and long term effects on a business.
- The external business environment can have a huge impact on a business that it must adapt to in order to survive. For example the current global recession.
- The business environment is complex and it is difficult for entrepreneurs to determine risk factors.

### 2.1 The control of the business over the business environment.

#### 2.1.1 The Micro Environment

Control of the micro environment is achieved by using internal **control systems**. These aim to:

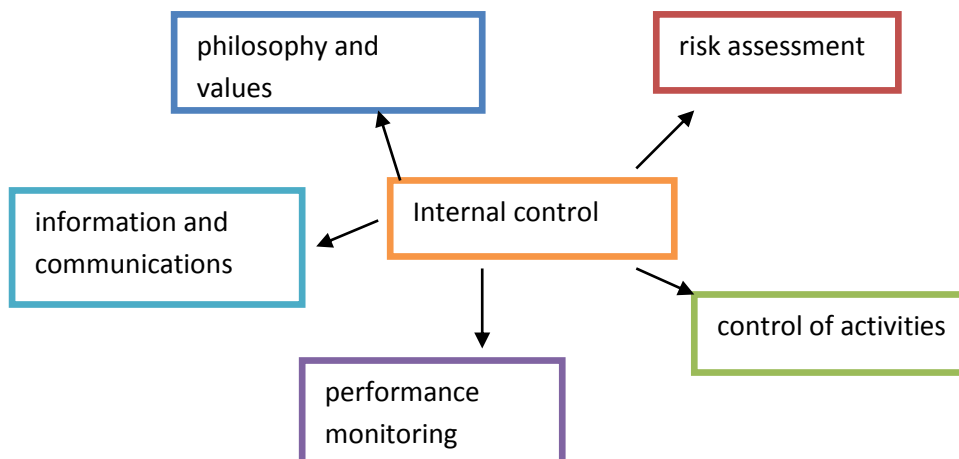
- Enable management to make sure that the objectives of the business are met.
- Make sure that reliable financial statements are prepared.
- Check that the business complies with all applicable laws and regulations.

Controllable variables are:

- The mission, vision and goals of the firm.
- The firm's business structure.
- The organisation and use of factors of production
- The organisation of the eight business functions
- The management style
- Management of employees
- Choice of business ethics
- Type of ownership
- Implementation of business policies

Aspects of internal control:

- Controlling the philosophy and values of the business
- Creating efficient information and communication systems
- Monitoring performance
- Assessing risk
- Controlling the activities of the business



### 2.1.2 The Market Environment

The business needs to be aware of the opportunities and threats in the market environment because these will affect its success or failure.

Opportunities include:

- Understanding the customer and their needs
- Making use of trade discounts
- Finding cheaper services or suppliers
- Making use of market research to create higher sales
- Creating a positive public image

Threats include:

- Lack of customer loyalty
- Increase in the cost of raw materials
- Unrest among workers
- Price wars
- Failure to lobby government.

The business has limited control over the market environment. The market environment can be divided into four main areas:

- Customers
- Suppliers and intermediaries.
- Competitors
- Civil Society

Opportunities and threats in the market environment

Opportunities	Threats
Customers	
Creating customer loyalties	Lack of customer loyalty
Suppliers	
Possibility of trade discount	Increase in cost of raw materials
Intermediaries	
Alternative or cheaper services	Unrest amongst workers
Competitors	
Market research and higher sales	Price war
Civil Society	
Positive public image	Negative public image

### 2.1.3 The macro-environment

The business has no control over the macro environment but can control how it reacts to challenges in the macro environment.

Examples of areas of the macro environment include the following:

- Physical environment
- Economic environment
- The socio-economic environment
- Legal environment
- Technological environment
- Political environment
- Institutional (government) environment
- International environment



A change in the business environment can be positive for one business and negative for another.

### 3. Ways that the business can be beneficially involved in the macro environment.

By being positively and actively involved in the macro environment, businesses can improve the economic and social conditions within South Africa.

Ways in which the business can be involved in the macro environment:

- Collective bargaining or lobbying to improve working conditions or change government regulations.
- Private-public partnerships, such as crime watches or social upliftment.
- Privately owned services for the community or country such as schools or water supply.
- Job creation
- Social responsibility initiatives
- Government tenders to bid for large state contracts.
- Expansion into other African countries to create export markets and more jobs.
- Improving technology to streamline economic growth.

#### End of topic questions

##### Multiple Choice

Select the correct answer from the alternatives.

1. The marketing function of Gizmo Toys (Pty) Ltd would be part of the .....environment.

- A. Micro
- B. Market
- C. Macro
- D. Internal (2)

2. A change in the immigration policy of the country would take place in the .....environment.

- A. Micro
- B. Market
- C. Macro
- D. Business (2)

3. Which of the following is NOT a characteristic of an entrepreneur?

- A. The need for achievement
- B. Focus of control
- C. Propensity for risk-taking
- D Ability to solve problems (2)

##### True or False

Answer only true or false.

4. The market environment is always under the control of the business. (2)

5. Making sure all employees are trained to do their jobs properly is part of the micro environment. (2)
6. Variables such as changes in Employment Laws do not affect the business because they are beyond the control of the business. (2)

### Short questions

7. Explain the meaning of the micro business environment. (6)
8. Make a list of 5 variables (challenges) of the micro business environment. (10)
9. Describe the market business environment and name 4 variables (challenges). (10)
10. List four parts of the macro environment. (8)

### Essay Question.

11. Responsible businesses become actively involved in their macro environment. Discuss this statement and suggest ways that businesses can be positively involved in the economic structure of the country. (40)

### End of topic answers

1. B (2)
2. C. (2)
3. C. (2)

### True or False

4. F (2)
5. T (2)
6. F (2)

### Short questions

7. Consists of the business itself ✓✓ and is controlled by management. ✓✓ The business can control the variables in this environment. ✓✓ (6)
8. (any 5 x 2 = 10)
- Vision, mission and goals ✓✓
  - Business structure ✓✓
  - Factors of production ✓✓
  - Business functions ✓✓
  - Management style ✓✓
  - Employees ✓✓
  - Business ethics ✓✓
  - Owners ✓✓
  - Business policies ✓✓ (10)
- 9.
- Consists of suppliers, customers and competitors. ✓✓ (2)
  - Lack of customer loyalty ✓✓
  - Increase in the cost of raw materials ✓✓
  - Unrest among workers ✓✓
  - Price wars ✓✓
  - Failure to lobby government. ✓✓ ( any 4 x 2 = 8) (10)

10.

- Physical environment√√
- Economic environment√√
- The socio-economic environment√√
- Legal environment√√
- Technological environment√√
- Political environment√√
- Institutional (government) environment√√
- International environment√√ ( any 4 x 2 = 8)

[8]

### Essay Question.

11.

The business has no control over the macro environment√√ but can control how it reacts to challenges in the macro environment. √√

Examples of areas of the macro environment include the following:

- Physical environment√√
- Economic environment√√
- The socio-economic environment√√
- Legal environment√√
- Technological environment√√
- Political environment√√
- Institutional (government) environment√√
- International environment√√ (20)

By being positively and actively involved in the macro environment, √√ businesses can improve the economic and social conditions within South Africa. √√

Ways in which the business can be involved in the macro environment:

- Collective bargaining or lobbying to improve working conditions or change government regulations. √√
- Private-public partnerships, such as crime watches or social upliftment. √√
- Privately owned services for the community or country such as schools or water supply. √√
- Job creation√√
- Social responsibility initiatives√√
- Government tenders to bid for large state contracts. √√
- Expansion into other African countries to create export markets and more jobs. √√
- Improving technology to streamline economic growth. √√ (20)

[50]

# Topic 2 Challenges of the business environment

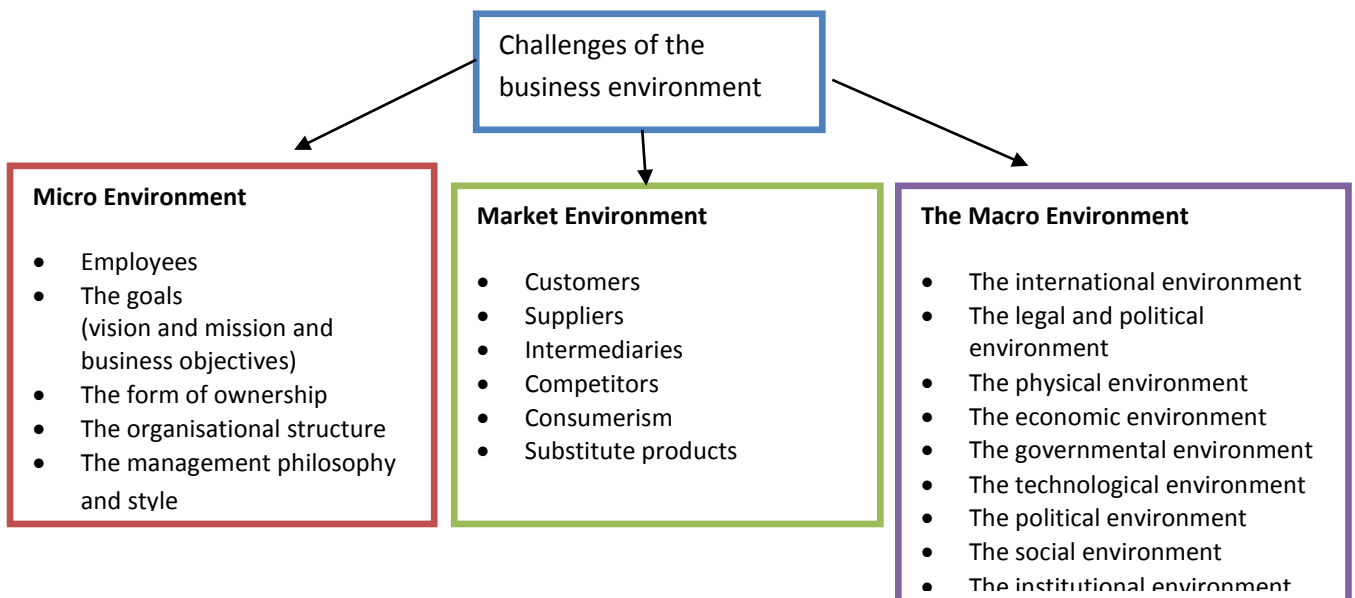
## Overview

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- This topic examines the challenges that exist in the micro, market and macro business environments. Businesses need to be aware of the challenges they will face in the different environments in order to be able to deal with time and make provision for problems.
- Anything that can change in one of the business environments is called a **variable**. The variables in the internal and external environments are inter-related because a change in one variable can affect other variables.

The Topic deals with:

- Challenges of the micro environment, such as lack of vision, poor management, strikes and go-slows.
  - Challenges of the market environment, such as competition, supply problems and changes in consumer behaviour.
  - Challenges of the macro environment such as legislation, globalisation and socio-economic issues.
- 



# 1 Challenges of the micro-environment

A challenge in the micro environment refers to variables within a business such as labour and raw materials, finance and assets that managers/owners have to manage effectively.

- **Employees**

Workers need to be properly trained, motivated and have the skills needed to produce high quality goods and services. Business owners must ensure that their workers receive adequate skills training and education in terms of their particular type of work.

The Employment Equity Act ensures that equal employment opportunities are a legal requirement when businesses are seeking new recruits.

- **The goals (vision and mission and business objectives)**

Vision refers to how you see the future or long term goals of the business. Managers and workers who lack vision and mission are not aware of, or do not understand, the aims of the business and contributions to the communities that they serve.

- **The form of ownership**

The owners must choose a suitable form of ownership in order to run their business effectively.

- **The organisational structure**

The organisational structure determines how a business is managed.

- **The management philosophy and style**

The management philosophy and style determines how effectively a business will be run. It includes the core values, convictions and social customs of the business.

**Three components that contribute to the future vision of the business.**

**The core purpose** – The reasons for starting and running the business.

**The core values** – The guiding principles that are important to the business, such as producing the highest quality products possible.

**The mission** – This is a statement of the businesses' aims and values.

- **Strikes, go slows and trade unions**

A strike is when workers refuse to go to work because of disagreements with management or owners of a business. A go slow occurs when workers work slowly and refuse to do anything extra or work overtime.

Trade unions are labour organisations. Today, most workers belong to unions and when they are dissatisfied with wages, working conditions or any other grievances they organise strikes which impact negatively on productivity and the smooth running of a business.



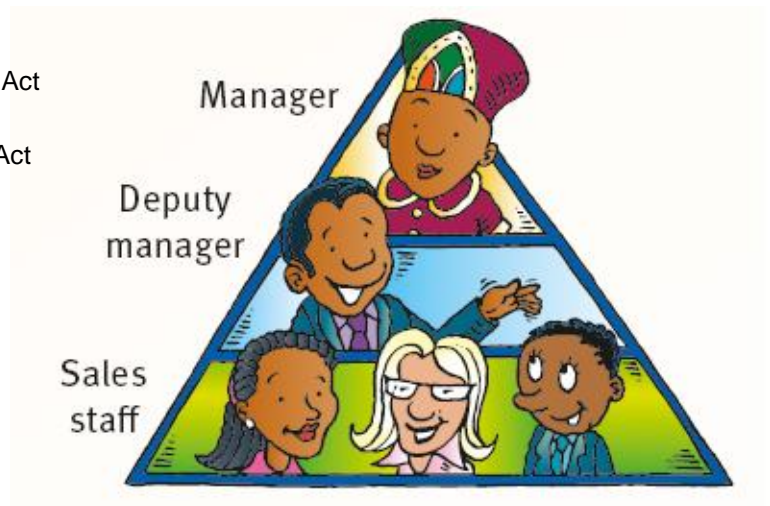
- **Collective bargaining**

Collective bargaining occurs when groups or their representatives seek to negotiate with and influence employers on matters relating to issues in the workplace. Collective bargaining can help to stabilise relationships between managers and workers and provide a useful forum for the discussion of wider issues concerning the progress of the business

**LEGISLATION TO CONTROL EMPLOYER/EMPLOYEE RELATIONSHIPS IN SOUTH AFRICA.**

These are the main laws which regulate employer-employee relations.

- The Labour Relations Act
- The Basic Conditions of Employment Act
- The Employment Equity Act
- The Occupational Health and Safety Act
- The Skills Development Act



## 2 Challenges of the Market Environment

The market environment is part of the external or macro environment.

### 2.1 Customers

Customers have buying power and are in a position to choose with what or where they satisfy their needs. A business should aim to create customer satisfaction and aim to retain long-term customer loyalty. This can be done by market research to establish the needs of the target market and determine the correct product and the correct price. The target market is that sector of consumers at which a specific good or service is aimed.

### 2.2. Suppliers

Suppliers are individuals or businesses that supply inputs such as raw materials, capital, labour or services (e.g. transport) to a business. These inputs can also be called factors of production. Suppliers need to be reliable. Challenges include ensuring the availability and continuity of supplies as well as the correct quality and price of supplies.

### 2.3 Intermediaries

Intermediaries are also called middlemen and include wholesalers, retailers, agents, insurers, advertisers, etc. Intermediaries operate in the tertiary sector of the economy. They usually pass on or resell products and services. Wholesalers are such as Makro and Trade Centre are large resellers. Agents also pass on goods and services, for example official resellers of spare parts for cars. Insurance brokers sell insurance on behalf of insurance companies such as Old Mutual.

The following challenges may be present:

- E-commerce, allowing consumers to buy direct from the Internet
- Large retail groups can out price smaller shops
- Large retailers offer own name brands at cheaper prices
- Consumer protection laws help consumers to manage their debt
- Services provided by intermediaries can increase the costs of a product

### 2.4 Competitors

Competitors are businesses that sell similar or substitute products. Businesses face a challenge in trying to make their products different or more desirable. Competition is an important part of the free-market system. The small business owner needs to know as much as possible about competitors in the same business. They must gauge the strengths, weakness and advantages of the competition and use that knowledge to better their own business.

Challenges relate to:

- Industry rivalry
- New entrants to the market
- Cheaper or better substitutes
- The bargaining power of suppliers
- The bargaining power of customers and clients

- The availability of substitute products
- The possibility to copy or duplicate a product

## 2.5 Consumerism

Consumerism refers to the organised actions of consumer groups and the government to protect consumer rights. The Consumer Protection Act aims to protect consumers against unethical practices and products that represent a danger to health or safety.

Businesses are challenged to:

- act ethically and responsibly
- be socially responsible
- be aware of environmental issues
- treat customers fairly

## 2.6 Regulators and Trade Unions

Regulators are government bodies that oversee specific aspects of business such as health and safety. A good relationship with trade unions ensures a good relationship with the business' workforce.

## 2.7 Strategic Allies

When two or more businesses work together in a joint venture they are strategic allies. This helps a business to obtain from another business some expertise which they may lack.



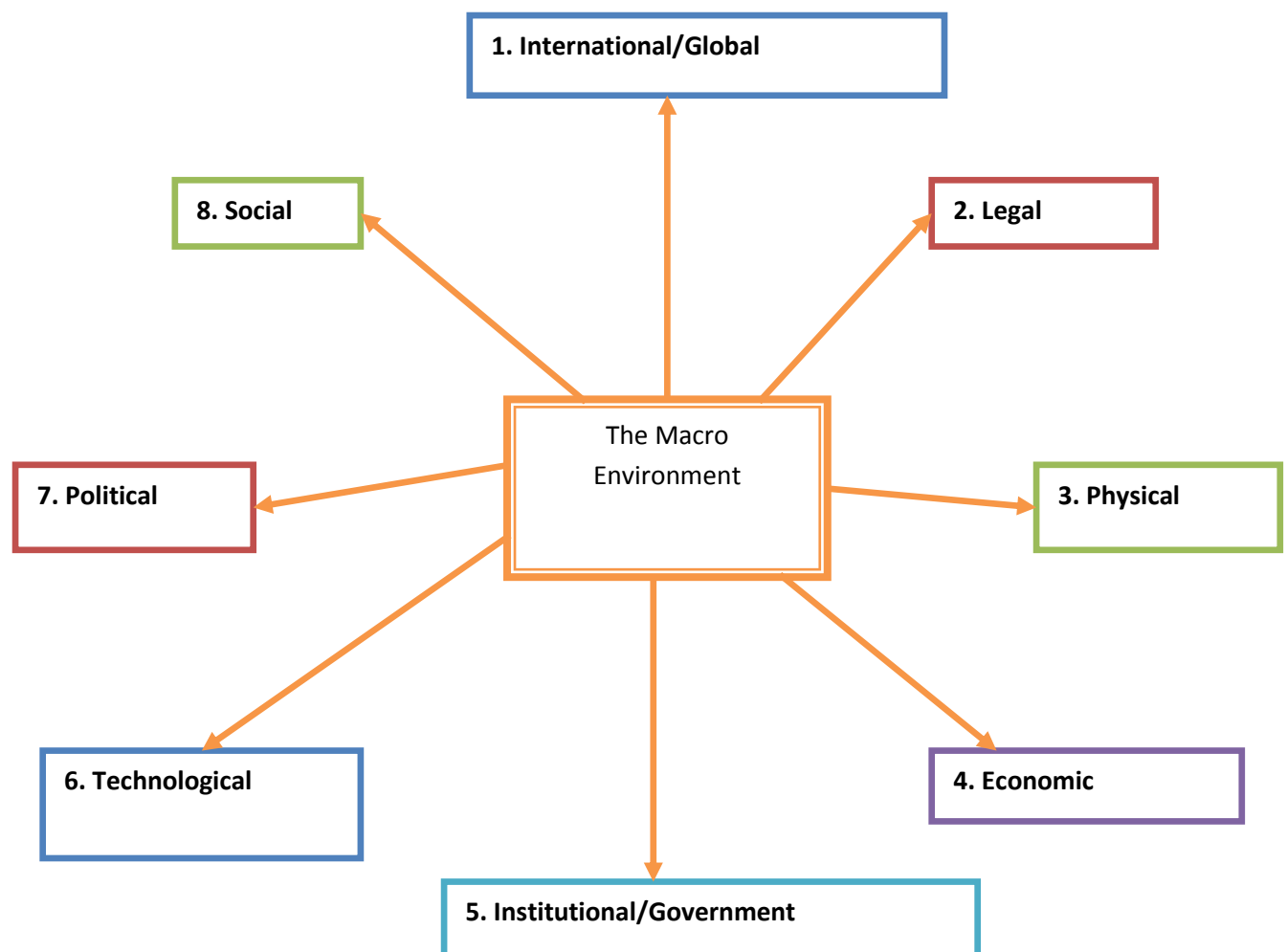
The logo for environmentally friendly packaging encourages consumers to recycle.

### 3 Challenges of the Macro Environment.

There are many factors in the macro environment that can influence the growth of the business. These factors cannot be controlled and are difficult to predict or avoid. Examples include:

- The economic recession
- Government regulations and laws
- Climate change
- The impact of HIV/Aids
- Political changes
- Changes in consumer tastes

#### 3.1 Factors in the macro environment



## The international environment

- International trade is a challenge in terms of the massive and diverse products that are now globally available to many countries. Multinational companies affect the macro environment throughout the world.
- Cheaper imported goods are a major challenge to local suppliers and producers. Local businesses that cannot compete with imports could have to close down. Workers will lose their jobs.
- Dumping – Goods that are exported at extremely low prices by countries wishing to establish a market.
- All countries gain from international trade bringing greater competition, greater choice and greater specialisation.
- A disadvantage to a country restricting international trade is that other countries ‘follow suit’, with the risk of a trade war and an inevitable economic recession.

**Tariffs** – paid to the government. Also called import duties which raise the price of imported goods, making it less competitive to local manufacturers

**Subsidies** – are given by the government to local producers which make their goods cheaper and therefore more competitive than those from importers.

## The legal and political environment

1. South Africa has a new constitution.
2. The laws of the country ensure that citizens and businesses are protected and serve as moral and ethical guidelines where no others exist.
3. Sometimes the law is restrictive to business owners. Example: the new National Credit Law no. 34 of 2005 came into effect on 1 June 2007 to regulate the credit industry and enforce responsible credit lending.
4. Black Economic Empowerment (BEE) is an economic policy targeting inequality in the workplace and aimed at broadening the economic base of the country.

## The physical environment

5. The physical environment means the natural resources available both locally and internationally. Natural resources are not always infinitely available and measure need to be taken to protect and preserve them.
6. Scarce resources or raw materials lead to higher costs and higher prices. Examples: water, energy, mining, fishing, agriculture, foods.

Physical environmental issues such as pollution and depletion of scarce resources can be very costly not only to business but also to the many people and animals on the planet. Factors such as global warming and the depletion of the ozone layer have forced many governments to pass laws to control emissions of harmful substances.

Businesses can **RE-USE** products, for example glass bottles, **RECYCLE** used products, for example rubber products or **REDUCE** wastage by ensuring that all of the raw materials are used in some way

### **The economic environment**

- South Africa has a **mixed market economy** which means it has both privately and government owned business.
- The economic cycle involves the flow of money and products (including services) in opposite directions. People have to satisfy their needs and wants. They do this by paying privately owned businesses or parastatals (partly owned government institutions) for goods and services.
- Some of the main economic factors in South Africa are inflation, globalisation, unemployment and interest rates.

### **The governmental environment**

- South Africa has a mixed market economy where the government ensures that the nation is provided with essential goods and services such as health, education, safety and transport.
- Government institutions need to be reliable and consistent in their standards and delivery.
- The state also implements programmes such as GEAR (Growth, Employment and Redistribution), the RDP (Reconstruction and Development Programme) and the IDC (Industrial Development Programme to try and create economic growth.

### **The technological environment**

- Business owners must be aware of what technological advances are taking place within their own industries.
- New technology could make your production methods obsolete (outdated).
- Businesses must make sure they have the capital to replace old equipment.
- Businesses must use or create training and skills programmes to keep workers up to date.
- The internet is an example of technological change.

### **The political environment**

- South Africa has undergone many since 1994.
- Many more people have access to education, financing and self-improvement than ever before.
- Jobs are not restricted to specific genders or groups.
- The large number of unskilled people in the job market is a problem.
- Some policies that pose a challenge to business owners such as affirmative action, Black Economic Empowerment and the tax implications on some products.

### **The social environment**

South Africa is faced with major social challenges. Some of them are:

- HIV/AIDS is a disease that affects the productivity of not only the employee but also the business owner.
- Having too many illiterate people in some of our provinces hampers production and service deliveries.
- Diversities in lifestyles, social values, religions, traditions, cultures and habits of consumers can lead to challenges.
- Unskilled workers who need training.

### The institutional environment

- Banks, municipalities, trade unions and government departments all represent a challenge to businesses. Micro-lending is a form of credit available to people and small businesses who would not normally qualify for credit from the larger financial institutions.

## End of topic questions

### Multiple Choice

1. The micro environment of a business consists of:  
A. The firm's mission and objectives; the organisation and resources.  
B. The firm's mission; the objectives and resources.  
C. The resources of the business including its customers and organisation.  
D. The firm's market; its resources and mission. (2)
2. Multinational companies:  
A. Affect the global economy.  
B. Are a problem in the developed world.  
C. Restrict the effects of dumping.  
D. Are part of the internal environment of a business. (2)
3. Import duties:  
A. Lower the price of imported goods making them more available for consumers.  
B. Encourage international trade.  
C. Do not apply in South Africa.  
D. Increase the price of imported goods, lowering consumer demand for them. (2)

### True or False

4. South Africa has a mixed market economy. (2)
5. A substitute product is a product that can be used in place of another similar one. (2)
6. Resellers form a part of the macro environment. (2)

### Short Questions

7. There are many challenges that a business owner encounters. Discuss 2 challenges in the micro business environment and 2 challenges in the market environment. (8)
8. List 4 Acts that affect businesses. (8)
9. What do you understand by the term 'target market'? (6)
10. Describe two challenges from each of the three environments [micro, market and macro] experienced by an independent bakery operating as a sole trader without any links to a supermarket chain. (18)

### Essay Question

11. The macro environment contains challenges that are outside the immediate control of the business.  
11.1 Explain which factors form part of the macro environment. (20)  
11.2 Discuss why these factors are outside the control of the business and what if anything the business can do to try to influence them. (20)  
(40)

## End of topic answers

### Multiple Choice

1. A. (2)
2. A. (2)
3. D. (2)

### True or False

4. True. (2)
5. True. (2)
6. False. (2)

### Short Questions

7. Micro: Employees ✓✓ The goals ✓✓ (vision and mission and business objectives) The form of ownership ✓✓ The organisational structure ✓✓ The management philosophy and style ✓✓ (2 x 2 =4)

Macro: The international environment ✓✓ The legal and political environment ✓✓ The physical environment ✓✓ The economic environment ✓✓ The governmental environment ✓✓ The technological environment ✓✓ The political environment ✓✓ The social environment ✓✓ The institutional environment ✓✓ (2 x 2 =4) (8)

8.  
The Labour Relations Act ✓✓  
The Basic Conditions of Employment Act ✓✓  
The Employment Equity Act ✓✓  
The Occupational Health and Safety Act ✓✓  
The Skills Development Act ✓✓ (4 x 2 = 8) (8)

9. The target market is that sector of consumers ✓✓ at which a specific good or service is aimed ✓✓. It is part of the market environment. ✓✓ (6)

10. Micro: Employees ✓✓ The goals ✓✓ (vision and mission and business objectives) The form of ownership ✓✓ The organisational structure ✓✓ The management philosophy and style ✓✓ (6) + explanation

Market: Customers, ✓✓ suppliers, ✓✓ intermediaries, ✓✓ competitors, ✓✓ consumerism, ✓✓ substitute products. ✓✓ (6) + explanation

Macro: The international environment ✓✓ The legal and political environment ✓✓ The physical environment ✓✓ The economic environment ✓✓ The governmental environment ✓✓ The technological environment ✓✓ The political environment ✓✓ The social environment ✓✓ The institutional environment ✓✓ (6) + explanation (18)

### Essay Question

11.  
There are many factors in the macro environment that can influence the growth of the business. These factors cannot be controlled and are difficult to predict or avoid. Examples include:
- The economic recession



- Government regulations and laws
- Climate change
- The impact of HIV/Aids
- Political changes
- Changes in consumer tastes

The main areas of the macro environment that affect the business are:

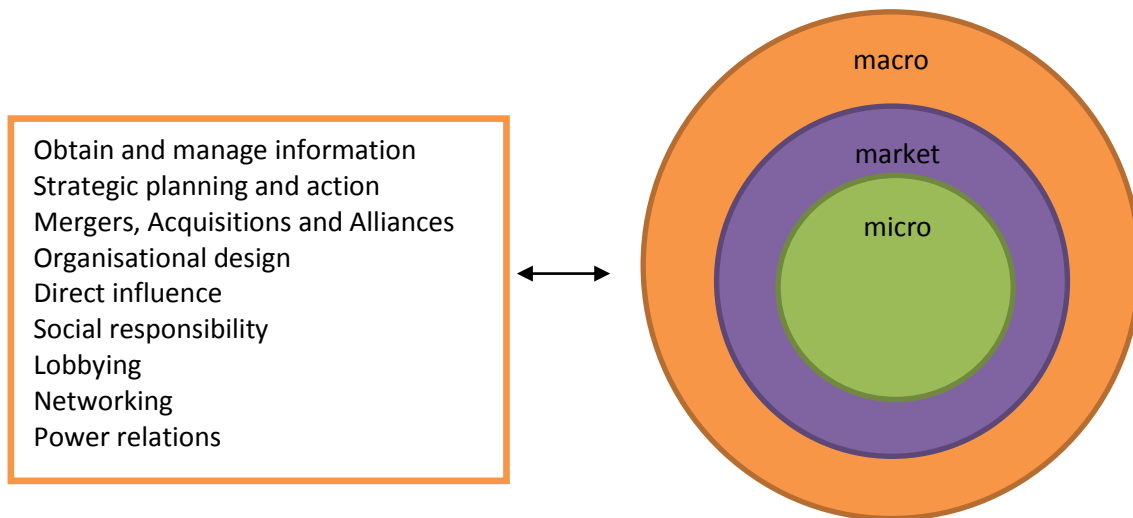
The international environment√√ The legal and political environment√√ The physical environment√√ The economic environment√√ The governmental environment√√ The technological environment√√ The political environment√√ The social environment√√ The institutional environment√√  
 (+ explanation) (36)  
 Plus 4 for insight and interpretation  
 (40)

# Topic 3 Adapting to the challenges of the business environment

## Overview

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To deal with the challenges in the business environment, an enterprise must try to be proactive and forecast challenges before they actually arise. This allows the business to find a way to deal with problems before they actually arise. A problem may be beyond the control of the business, for example flooding or a fire, in which case the business must find a way to adapt.



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## 1 Ways to identify, forecast and adapt to challenges.

### 1.1 Information management

A business must gather information about its environment in order to understand any changes that may be taking place. It can do this by:

- **Environmental scanning**

This is the process of measuring, projecting and evaluating change in the environment.

Managers can read financial analyses in newspapers and magazines to see how customers and competitors respond.

Scanning must be continuous or on-going scanning. Data must be collected and compiled in an organised manner, on a daily basis and on a broad range of environmental factors. This allows the business to act quickly and take advantage of opportunities before competitors do, and respond to environmental threats before major damage is done.

Scanning determines the factors that may be a threat to the business. The business may need to change its strategy to deal with possible threats.

- **Boundary spanning**

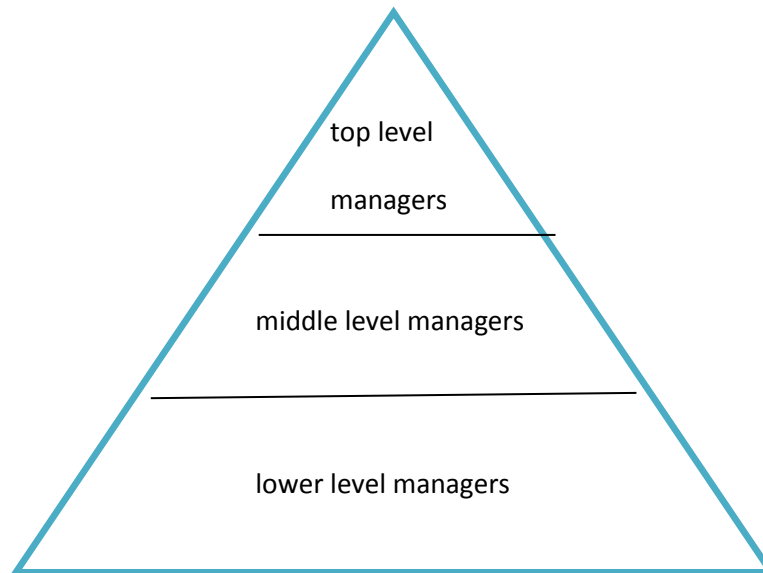
Boundary spanning involves gathering information and presenting it to the management of the business, as well as sending out information that will improve the image of the company to customers. For example a company can hire people the same age as their target market in order to gather first-hand information about what their customers want.

## 1.2 Management information systems (MIS)

An efficient management information system will help the business to gather and organise information that is useful to all managers.

A MIS produces reports for managers who operate at three levels.

1. Top-level managers who make **strategic** and **long-term** decisions.
2. Middle-level managers who make decisions that are **tactical** and **medium to short term**.
3. Lower-level managers who need **short term** information about the **day-to-day** running of the business.



## 1.3 Internal business audits

Internal business audits involve investigations and evaluations of different business functions such as general management, production and administration

An internal business audit will identify the strengths and weaknesses in the micro environment of the business.

A business must be able to adapt its internal strengths and weaknesses to the opportunities and threats that are present in the environment.

A **SWOT-analysis** is an analysis of the strengths and weaknesses, opportunities and threats of a business.

## SWOT ANALYSIS



## 2 Strategic planning and management

Management must be able to develop strategies to deal with environmental change.

The management of change can be **reactive**, where the management responds to changes in the environment **after** they have occurred or it can be **proactive**, where management implements change **before** changes in the environment have occurred.

Using strategic thinking to improve the performance of the business and to respond to change is called

**strategic management**. It involves the following:

- Specifying the goals of the business
- Developing plans to achieve the goals
- Allocating resources to implement these plans.

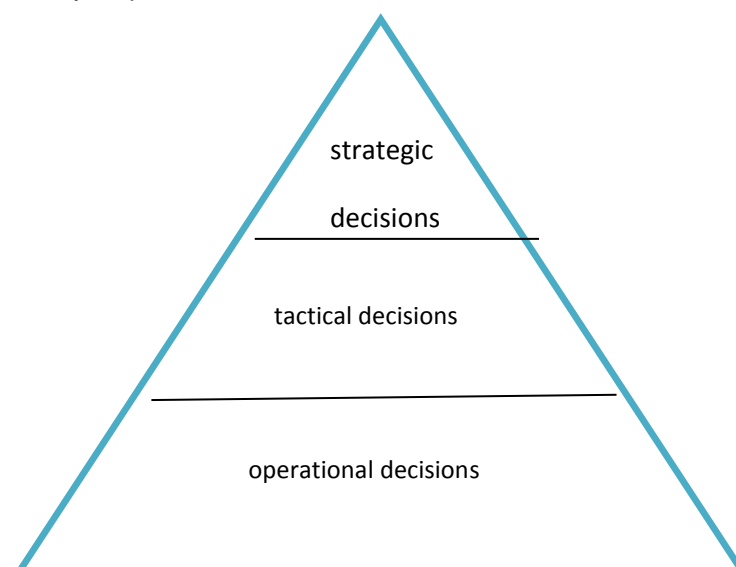
### 2.1 Strategic planning

- To cope with the challenges of the external environment, strategic planning, followed by tactical planning, must be implemented.
- The purpose of strategic planning is to take the necessary actions to deal with environmental opportunities and threats as they relate to the strengths and weaknesses of the business.
- **Strategic planning** often involves preparing for unexpected and quick changes in the external environment that may have a major impact on the business. This is also called **contingency** planning. It prevents panic and allows for orderly reactions to events in the external environment that the business cannot control.
- **Tactical planning** follows strategic planning and involves decisions about **what** to do, **who** will do it, and **how** to do it.

### 2.2 Strategic management

The different levels of management are usually set up in a **hierarchy**, from the highest to the lowest levels.

- Top management level makes **strategic decisions** aimed at the external problems of the business (such as choice of products and markets).
- Middle level management makes **tactical decisions** aimed at **executing** the strategic decisions made by top management.
- Lower management level makes **operational decisions** aimed at making the business operate as profitably as possible.



Examples of responses and adaptations to challenges in the environment:

- Innovation
- Concentration
- Market development
- Rationalisation
- Divestiture
- Liquidation

### 2.3 Mergers, acquisitions and alliances

- A **merger** takes place when two or more businesses combine to form a new business.
- An acquisition (**takeover**) takes place when one business buys another business, sometimes against its will (called a **hostile** takeover).
- An **alliance** (partnership) takes place when a business starts a venture with another business. They may have products or services that complement each other or be able to make use of each others' skills.



Wal-Mart poses a significant threat to other South African retailers.

### 3 Organisational design and flexibility

The management structure of a business should reflect the environmental conditions that the business experiences. For example, a business that operates in an environment with relatively low levels of uncertainty might choose to use a mechanistic organisational design.

Characteristics of a mechanistic organisational design:

- Many rules and regulations to support efficiency and control
- Formal communications
- Bureaucratic hierarchy in taller horizontal structures
- Centralised authority.

A business that faces a great deal of uncertainty might choose an organic organisational design. An organic organisational design is less rigid, develops over time and is more people-centered.

Characteristics of an organic organisational design:

- Fewer rules
- Informal communication
- Collaboration in teams with flatter vertical structures
- Decentralised authority.

## 4 Direct impact on the environment

Businesses are able to influence elements in their market environment in different ways.

- Using long term contracts with suppliers which give fixed prices and protect the business against rising prices due to inflation.
- Using vertical integration to become its own supplier and eliminate dependency on a supplier. For example, a fruit canning factory may decide to start manufacturing its own tins.
- Price manipulation to influence its competitors. If Makro lowers the price of their flat screen TV sets all other sellers of TVs may be forced to do the same.
- Influencing the customer base by creating new uses for a product, taking customers away from competitors, finding new customers and convincing customers that they need the new product.

## 5 Social responsibility

Social responsibility means the **obligations** a business has to protect and improve the interests of all its stakeholders. This includes:

- Suppliers, employees, customers, creditors, competitors, trade associations
- The natural environment – through noise pollution, recycling, waste control
- General social welfare – the local and national community.

Social responsibility is very important for the development of our society because poverty and inequality are serious issues.

Through social responsibility a business can influence its business environments and address challenges linked to socio-economic issues in its social environment.

By preventing unemployment, business helps reduce poverty and crime.

Unsuccessful social responsibility projects are very disheartening for the disadvantaged community, but can also do a lot of damage to the corporate image of the business.



Power relations are an integral part of business, and need to be handled constructively.



## **6 Networking, lobbying and power relationships**

### **6.1 Networking**

The goal of networking is to reach as many people as possible, and to make every connection count. Networking is a tool used by every business that wants to increase its sales. It is visually efficient and inexpensive. Businesses often appoint people who are well-known because of their achievements in sport or culture to these positions.

### **6.2 Lobbying**

Lobbying happens when a business tries to influence situations in order to meet its specific business needs and activities, through talking to other businesses, organisations, pressure groups or government structures.

The following are some examples:

- Hedging against inflation
- Bargaining sessions between management and unions
- Influencing supervisory bodies ( inspectors)

### **6.3 Power relationships**

Power relations exist in all relationships throughout society. When two businesses negotiate a transaction, one of them may be in a stronger position than the other.

Examples of power relations in business:

- Strategic alliance agreements
- Persuasion of large investors
- Company representatives' influences

## End of topic questions

### Multiple choice

1. Choose the correct answer. Only write the letter of the answer you select.
  - A. Strategic decisions are made by top level managers.
  - B. Tactical decisions are made by top level managers.
  - C. Lower level management makes tactical decisions on the day to day running of a business.
  - D. Operational decisions are made by middle level managers.
  
2. Environmental scanning is the process of:
  - A. Creating change in the environment.
  - B. Measuring, projecting and evaluating change in the environment.
  - C. Scanning for environmental destruction.
  - D. Delivering and distributing products.

### 3. True/false

Say if the following are true or false:

- 3a. Lobbying occurs when a business tries to influence outcomes for its own benefits.
- 3b. Tactical decisions made by middle level managers are independent of top level strategic decisions.
- 3c. A management information system is a useful tool for management.
- 3d. Bargaining sessions between management and unions is an example of lobbying.

### Short Questions

4. Explain how networking can be to the advantage of a business. (6)
5. What does the term SWOT stand for? (8)
6. Explain how a factory that produces cheese could benefit from a merger, an acquisition and an alliance. [12]
  
7. Give two characteristics of an organic organisational design (2)
  
8. Give two characteristics of a mechanistic organisational design (2)
  
9. Discuss the differences between strategic and tactical planning. (8)
  
10. What is the difference between a merger and an alliance? (4)

### Longer Question

11. Amanzi is a large business with many branches and it buys paper pulp from other businesses and the public. The business sorts the pulp and either recycles it for paper production or exports it to Japan. Discuss three ways how this business can benefit from getting involved in its macro environment. [15]

## End of topic answers

1. A
2. B

3.
  - a. T
  - b. F
  - c. T
  - d. T

4. Reaches many people  $\checkmark\checkmark$  makes connections count  $\checkmark\checkmark$  is inexpensive  $\checkmark\checkmark$  and efficient.  $\checkmark\checkmark$  (3 x 2 = 6)

5. Strengths,  $\checkmark\checkmark$  weaknesses,  $\checkmark\checkmark$  opportunities  $\checkmark\checkmark$  and threats.  $\checkmark\checkmark$  (4 x 2 = 8)

6. A merger occurs when two firms join together, this could be a vertical integration to control a link in the chain.  $\checkmark\checkmark\checkmark\checkmark$  An acquisition is a forced buy out, this could be of a competitor  $\checkmark\checkmark\checkmark\checkmark$  an alliance is when two firms work together voluntarily, this could be to use each other's skills.  $\checkmark\checkmark\checkmark\checkmark$   
(4 x 3 = 12)

7. Fewer rules  $\checkmark$  Informal communication  $\checkmark$  Collaboration in teams with flatter vertical structures  $\checkmark$   
Decentralised authority.  $\checkmark$  (2 x 1 = 2)

8. Many rules and regulations to support efficiency and control  $\checkmark$  Formal communications  $\checkmark$   
Bureaucratic hierarchy in taller horizontal structures  $\checkmark$  Centralised authority.  $\checkmark$  (2 x 1 = 2)

9. Strategic planning involves preparing for unexpected and quick changes in the external environment that may have a major impact on the business.  $\checkmark\checkmark$  This is also called contingency planning.  $\checkmark\checkmark$  It prevents panic and allows for orderly reactions to events in the external environment that the business cannot control.  $\checkmark\checkmark$   
Tactical planning follows strategic planning  $\checkmark\checkmark$  and involves decisions about what to do,  $\checkmark\checkmark$  who will do it,  $\checkmark\checkmark$  and how to do it.  $\checkmark\checkmark$  (4 x 2 = 8)

10. A merger takes place when two or more businesses combine to form a new business.  $\checkmark\checkmark$   
An alliance (partnership) takes place when a business starts a venture with another business.  $\checkmark\checkmark$   
(2 x 2 = 4)

11. Direct impact Businesses are able to influence elements in their market environment in different ways.  $\checkmark\checkmark$

- Using long term contracts with suppliers which give fixed prices and protect the business against rising prices due to inflation.
- Using vertical integration to become its own supplier and eliminate dependency on a supplier. For example, a fruit canning factory may decide to start manufacturing its own tins.
- Price manipulation to influence its competitors. If Makro lowers the price of their flat screen TV sets all other sellers of TVs may be forced to do the same.
- Influencing the customer base by creating new uses for a product, taking customers away from competitors, finding new customers and convincing customers that they need the new product. (any 3  $\checkmark\checkmark\checkmark\checkmark$ )

Social responsibility means the **obligations** a business has to protect and improve the interests of all its stakeholders.  $\checkmark\checkmark$  This includes:

- Suppliers, employees, customers, creditors, competitors, trade associations
- The natural environment – through noise pollution, recycling, waste control
- General social welfare – the local and national community. (any 3  $\checkmark\checkmark\checkmark$ )

Networking, lobbying and power relationships  $\checkmark\checkmark$  The goal of networking is to reach as many people as possible, and to make every connection count.  $\checkmark\checkmark$  Lobbying happens when a business tries to influence situations in order to meet its specific business needs and activities, through talking to other

businesses, organisations, pressure groups or government structures. √Power relations exist in all relationships throughout society. When two businesses negotiate a transaction, one of them may be in a stronger position than the other. √ (15)

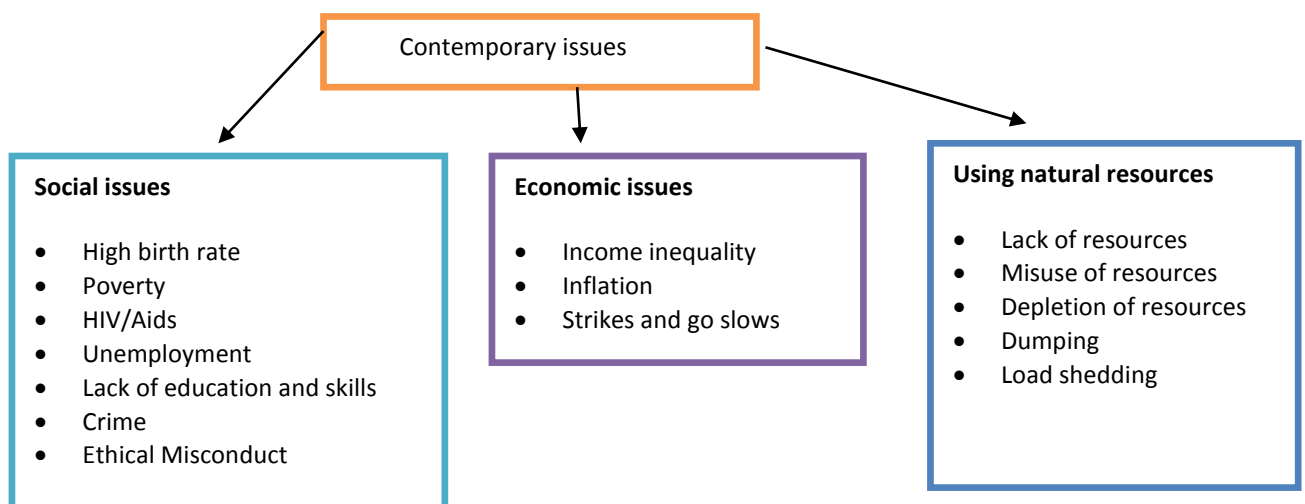


Wal-Mart will be able to adapt to challenges in its external environment more easily than smaller competitors.

# Topic 4 Contemporary socio-economic issues

## Overview

This topic deals with the Impact of contemporary socio-economic issues on business operations and productivity and discusses possible solutions and contributions to deal with socio-economic issues.



## 1 The impact of contemporary economic issues on business operations and productivity

Socio-economic issues like poverty, HIV/AIDS, unemployment and crime affect millions of people in South Africa today. In turn, they also affect the economy, businesses and production levels.

### 1.1 Income

In South Africa, the Basic Conditions of Employment Act 75 of 1997 (BCEA) sets minimum wages according to industry. There are large income inequalities in South Africa, leading to a big gap between the rich and the poor.

### 1.2 Inflation

- Consumer inflation is the rate at which the general level of prices for goods and services increases.
- This is measured by the Consumer Price Index (CPI).E.G. the consumer inflation for August 2011 was 5, 3%.
- If workers demand higher to keep up with rising prices then business owners are forced to recover their loss of income by increasing the price of their products.
- This together with an increasing fuel price results in a negative cycle that leads to a decrease in the buying power of the consumer.

## 2 Social issues

### 2.1 High birth rate

A high birth rate will cause a high population growth, which leads to more people will be looking for jobs and an even higher unemployment rate.

### 2.2 Poverty

Lack of access to healthcare, shelter and education are a major part of poverty. Over 40% of South Africans are poor, but since 1994, millions of people have gained access to drinkable water, and thousands of inexpensive houses are under construction. There is now free education and free medical care for pregnant women and for children under six years of age. To escape the poverty trap, the following basic needs must be met: Adequate food

- Education
- Clean water and sanitation
- Basic healthcare
- Adequate housing

Poverty has a very negative effect on a nation because it can lead to: crime, disease, misery and hopelessness.

### 2.3 HIV/Aids

HIV/Aids has a huge impact on society through low productivity, increased costs, retraining new employees, etc. This has a negative effect on the economy as a whole.

There are laws and regulations with regard to workers infected with HIV/AIDS in the workplace. HIV positive workers have the same rights as other workers and are entitled to the same training, development and promotion opportunities as anyone else.

### 2.4 Unemployment

Unemployment means those people who are economically active and are willing and able to work but cannot find a job. South Africa has a very high level of unemployment level; the rate for South Africa during 2010 was 23%. this is due to:

- Cyclical unemployment – Economic cycles such as recessions force businesses to retrench some of their workers.
- Seasonal unemployment –some jobs are just for a specific season and then the position becomes unavailable. Examples are crop harvesting and grape picking.
- Structural unemployment – Sometimes it is necessary to restructure the workplace because of new technology. Old positions become redundant and workers must either be retrained or are retrenched.
- Frictional unemployment – there is always some movement of jobs because of new positions opening elsewhere which causes frictional unemployment.

### 2.5 Lack of education and skills

One of the results of apartheid was that many people did not have a good education or skills training. This means that the middle age group of our population has a lack of education and skills

## 2.6 Crime

- Crime is often a direct result of socio-economic issues such as unemployment, poverty, HIV/AIDS, drug and alcohol abuse.
- The inability of the government and the judicial system to deal with crime has had a negative effect on the people of South Africa.
- Foreigners are hesitant to invest in a country with high crime rates.
- Crime acts as a deterrent to tourists and leads to skilled citizens leaving the country for somewhere safer.

## 2.7 White collar crime

Piracy is the unauthorised copying of videos, DVD's, movies, computer games and music. Because of piracy businesses lose money on lost sales; staff can lose their jobs if profits are low because of a drop in sales and performing artists, musicians, entertainers, writers, etc. are not paid for their services or intellectual property.

Intellectual property can be safeguarded by:

- Copyright, which is the law that protects a person's intellectual property, so that other people cannot use it as their own.
- Patent, which is a registered exclusive right of an inventor to make, use or sell an invention.
- Trade mark, which is any registered symbol, phrase, design, sound, smell, colour, product configuration or combination of these. It includes a brand name, a slogan or a logo

## 2.8 Economic crime

- This can be in the form of corruption, tax evasion, credit card fraud, goods smuggling, mismanagement of funds and public fraud.
- Economic crime has the potential to destroy the finances and the image of a business.
- Economic crime can be prevented or controlled by businesses putting internal control measures and procedures in place.
- Accurate records and original documentation of all transactions, as well as getting authorisation signatures from management when making payments.

## 2.9 Ethical misconduct

Ethical misconduct is the type of behaviour that, according to the Code of Ethics of an organisation, is not acceptable. The following descriptions are examples of ethical misconduct that could take place in the business.

- Sexual harassment
- Corruption
- Mismanagement of funds

Corruption and mismanagement of funds are forms of economic crime and can be prevented to some extent by putting internal control measures in place.

## **3 Natural resources**

### **3.1 Unavailability of natural resources**

- Natural resources are resources extracted from the Earth in the primary sector of economy to use in business operations.
- South Africa is seen as an arid country. This means we have a less than average amount of rain and crops can fail.
- Agricultural productivity in South Africa is very low because not all the farmland is used efficiently due to a lack of skill, money and equipment.

### **3.2 Inefficiency in the use of resources**

- Many businesses in the secondary and tertiary sectors have resources, but do not know how to make use of them.
- Labourers need to be trained so that they develop the skill to work with the resources. An example is that not all employees who need to operate a computer in the workplace are computer literate.

### **3.3 Dumping**

- Dumping means that goods enter South Africa from other countries at a price that is cheaper than the normal value of the goods.
- Dumping destroys the ability of local businesses to succeed in a very competitive market.
- If foreign companies are allowed to dump their goods in South Africa, the local small businesses will lose profit.
- Dumping is common in agriculture. In the agricultural sector some countries receive subsidies from their government.

### **3.4 Exhaustion of natural resources**

- If our natural resources are exhausted, businesses will not be able to produce what is necessary.  
Overconsumption leads to resource depletion. An example is the availability of coal used to generate electricity and to make fuel.

### **3.4 Load shedding**

This leads to black outs and power failures. This affects business negatively as many hours of production are lost due to the lack of electricity.



## 4 Strikes and go-slows

- Strikes affect the productivity of a business
- During the time of a strike, no production takes place or production can take place at a very slow pace because of limited availability of labour.
- Strikes and **lockouts** are an important bargaining tool in industrial disputes and collective bargaining.

### 4.1 The Labour Relations Act

- The aim of the Labour Relations Act (LRA) (Act 66 of 1995) is to promote economic development, social justice and democracy in the workplace.
- The LRA recognises trade unions and workers' rights.
- The LRA regulates all the parties in the employment relationship and provides guidelines for settlement of disputes.
- The CCMA helps parties resolve their disputes through mediation and conciliation.
- The Labour Court is a separate court to deal with all labour disputes.

### 4.2 The functions of Trade Unions

A trade union is a labour organisation representing workers.

- Create collective bargaining agreements concerning pay, safety and work conditions.
- Advise employers on their human resource policies and practices.
- Formulate and represent workers' rights and influence the making of laws and policies that benefit members
- Promote greater participation of workers in management decisions that affect them.
- Organise strikes and other industrial action to strengthen the demands of workers.
- Represent workers in disputes and grievances with their employers.
- Ensure the welfare and education of members on issues such as HIV/AIDS, financial planning and social benefits.

## 5 Other socio-economic issues include:

- Gambling
- Murders
- Traffic deaths
- Abuse of drugs and alcohol.

### End of topic questions

#### Multiple Choice

1. Intellectual property can be safeguarded by:

- A. Copyright, trade mark and patent
- B. Copyright, trade mark and usage
- C. Patent registration
- D. it can never be safeguarded due to piracy.

2. Cyclical unemployment occurs because:

- A. Economic cycles such as recessions can force businesses to retrench some of their workers.
- B. Some jobs are just for a specific season and then the position becomes unavailable.
- C. Sometimes it is necessary to restructure the workplace because of new technology.
- D. There is always some movement of jobs because of new positions opening.

#### Short Questions

- 3. Mention the positive reasons for collective bargaining. (6)
- 4. What is the result of poverty as a socio-economic issue? (6)
- 5. Define the macro business environment. (4)
- 6. What is meant by the term "inflation" and how do is it measured? (4)
- 7. Supply ONE word or term for the following definitions:
- 7.1 Issues such as a high birth rate, poverty, HIV/Aids, unemployment, and a lack of education and skill. (2)
- 7.2 A type of crime committed by a person of high status using the funds of the business. (2)
- 8. Explain the following concepts in your own words:  
a) economic crime (2) b) ethical misconduct (2) c) dumping (2) d) piracy (2) e) trade union (2) (8)

#### Longer Questions

- 9. List and briefly explain five functions of a trade union. (10)
- 10. Critically discuss crime as a result of disease, poverty and unemployment. (12)

## End of topic answers

1. A

2. A

3. Avoids strike action, √√ allows workers to band together as a unit, √√ creates uniform agreements across an industry sector. √√ (6)

4. Lack of education, √√ poor health, √√ crime, √√ unemployment √√ (3 x 2 = 6)

5. The external environment √√ over which the business has little control. √√ (4)

6. Inflation is a general and sustained rise in prices √√ and it is measured by the consumer price index. √√ (4)

7.1 Socio economic problems (2)

7.2 White collar crime (2)

8.

a. This can be in the form of corruption, tax evasion, credit card fraud, goods smuggling, mismanagement of funds and public fraud. (2)

b. Ethical misconduct is the type of behaviour that, according to the Code of Ethics of an organisation, is not acceptable such as sexual harassment, racial discrimination. (2)

c. Dumping means that goods enter one country from another at a cheaper price.

(2)

d. Piracy is the unauthorised copying of videos, DVD's, movies, computer games and music.

e. A trade union is a labour organisation representing workers (2)

9.

Create collective bargaining agreements concerning pay, safety and work conditions.

Advise employers on their human resource policies and practices.

Formulate and represent workers' rights and influence the making of laws and policies that benefit members

Promote greater participation of workers in management decisions that affect them.

Organise strikes and other industrial action to strengthen the demands of workers.

Represent workers in disputes and grievances with their employers.

Ensure the welfare and education of members on issues such as HIV/AIDS, financial planning and social benefits. (5 x 2 = 10)

10.

Crime is often a direct result of socio-economic issues.

Examples are unemployment, poverty, HIV/AIDS, drug and alcohol abuse.

The inability of the government and the judicial system to deal with crime has had a negative effect on the people of South Africa.

Foreigners are hesitant to invest in a country with high crime rates.

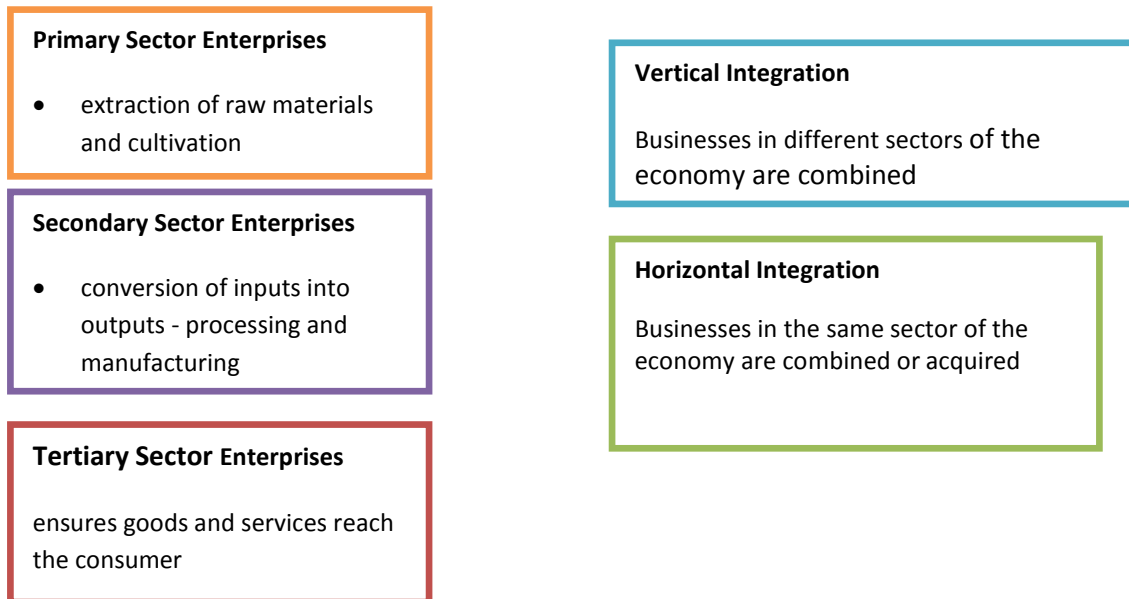
Crime acts as a deterrent to tourists.

It leads to skilled citizens leaving the country for somewhere safer. (6 x 2 = 12)

# Topic 5 Business sectors

## Overview

In grade 10 you learned that the economy is divided into three sectors, the primary, secondary and tertiary sectors. This topic identifies and investigates the complex links and challenges between enterprises in the primary, secondary and tertiary sectors.



## 1 The Primary sector

Primary sector industries are those that are directly involved in the extraction or cultivation of natural resources from the earth or the sea. These include:

- Mining
- Fishing,
- Forestry
- Animal husbandry (farming with animals)
- Agricultural farming.

The goods or raw materials extracted, cultivated or harvested in the primary sector are made available to the secondary sector for processing or transforming.

Natural resources which can be replaced or re-grown are **renewable**, for example, crops, pine forests and animal farming. Natural resources which cannot be replaced once they are used are **non renewable**, for example, coal, oil and peat.

## 2 The Secondary Sector

Secondary sector industries are those that are involved in manufacture, processing or construction using raw materials obtained by the primary sector. It converts products into a more usable form, using inputs from the primary sector which are then processed into outputs – semi-finished and finished goods. This includes manufacturing products such as food, clothes and cars, the construction of houses, roads and dams as well as the production of services such as electricity from coal.

**Dumping** occurs when a country exports its unwanted, excess or obsolete products to another country. Often they are offered for sale at a price lower than local products which is a threat to local producers who may go out of business.



A canning factory operates in the secondary sector.

### 3 The Tertiary Sector

Tertiary sector enterprises facilitating the flow of goods and services from the primary and secondary enterprises, ensuring that the products or services reach the consumer. Tertiary sector enterprises include the following:

- Wholesale
- Retail,
- Motor trade,
- Catering,
- Accommodation,
- Transport,
- Communications,
- Finance
- Insurance,
- Real estate,
- Personal services (e.g. doctors),
- Community services,
- Government services
- Cleaning.

We can sub-divide the tertiary sector into the following sectors:

- Wholesale and retail trade
- Catering and accommodation
- Transport, storage and communication
- Financial and business services
- Community and social services
- General government services

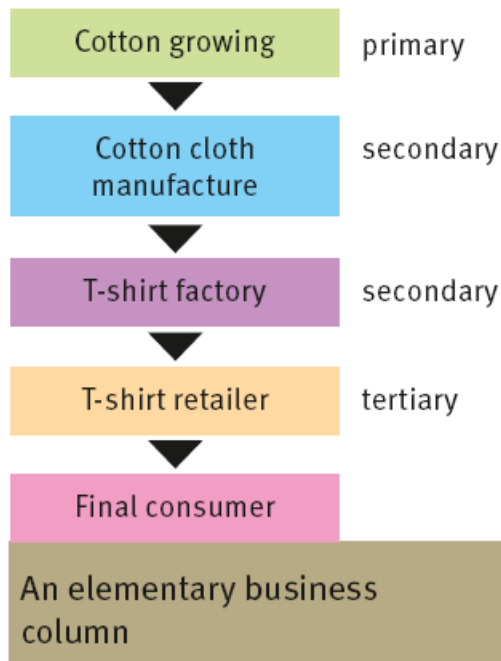


Personal services form part of the tertiary sector.

## 4 The business column

Products or services pass through the different sectors in a series of stages before they reach the final consumer. Often many different industries will be involved in the manufacture of one product.

### A simple business column



## 5 Links and challenges

We know that all businesses face challenges in their environments. Businesses can use their links in the different sectors to create strategies in response to challenges.

- Linking with suppliers to secure an input or obtain a more competitive price.
- Finding better suppliers in order to improve the quality of the product.
- External differentiation occurs when one step in the production is transferred to a separate business. For example, a manufacturer may ask another business to print the logos on T-shirts. This is an example of outsourcing.
- Vertical integration shortens the business column. This takes place when two or more consecutive processes are combined in the same business. For example a fruit canning factory buys a fruit farm.
- Forward integration occurs if the fruit farm buys the canning factory.
- Backward integration occurs if the canning factory buys the fruit farm.
- Horizontal integration occurs when two similar enterprises combine or one buys the other, to combine resources or reduce competition. for example Shoprite and Checkers.

An example of vertical integration

Dairy Farm → Dairy → Cheese making factory → Shop outlet

### End of topic questions

#### Short questions

1. Give an example of forwards integration (2)
2. Give an example of backwards integration (2)
3. List four subdivisions of the tertiary sector. (8)
4. List two primary sector industries. (4)
5. Give an example of how the natural resource **Iron** might be used in the secondary sector. (2)
6. Create a basic business column for a leather handbag sold at a fashion shop (10)

#### 7. Case Study

Solly and Rajah own a fruit canning factory called "Fresher fruit". They source their fruit from two farmers who have agreed to supply them. They hope to sell their canned fruit to Pick 'n Pay and Checkers. They have asked Speedy Vans to quote to distribute their products to all the different provinces. Solly and Rajah bank with FNB and have insured their premises with Old Mutual. Their advertising material has been created by Speedy Print (Pty) Ltd.

Fill in the following chart to show how all the sectors and environments are interrelated with Fresher Fruit. (18)

Sectors Environments	Primary Sector	Secondary Sector	Tertiary Sector
Micro			
Market			
Macro			



## End of topic answers

1. A factory buys a shop outlet for its goods. (2)  
 2. A frozen vegetable producer buys a farm to ensure supply. (2)

3.  
 Wholesale and retail trade  
 Catering and accommodation  
 Transport, storage and communication  
 Financial and business services  
 Community and social services  
 General government services (4 x 2 = 8)

4. Mining, animal husbandry, fishing, agricultural farming, forestry (any 2 x 2 = 4)

5. Make steel for use in tin cans, cars etc. (2)

6. Cattle rearing (primary)

↓  
 Tannery - leather working (secondary)

↓  
 Handbag factory (secondary)

↓  
 leather goods store (tertiary)

↓  
 Final consumer (10)

7.

Sectors Environments	Primary Sector	Secondary Sector	Tertiary Sector
Micro	Efficiency of farmers	Fresher fruit employees Production processes	Cash flow to pay bills.
Market	Farmers	Availability of fruit	Pick 'n Pay Checkers Speedy vans Old Mutual Speedy Print
Macro	Weather or crop diseases	Employment Laws	Interest rates laws

(9 x 2 = 18)

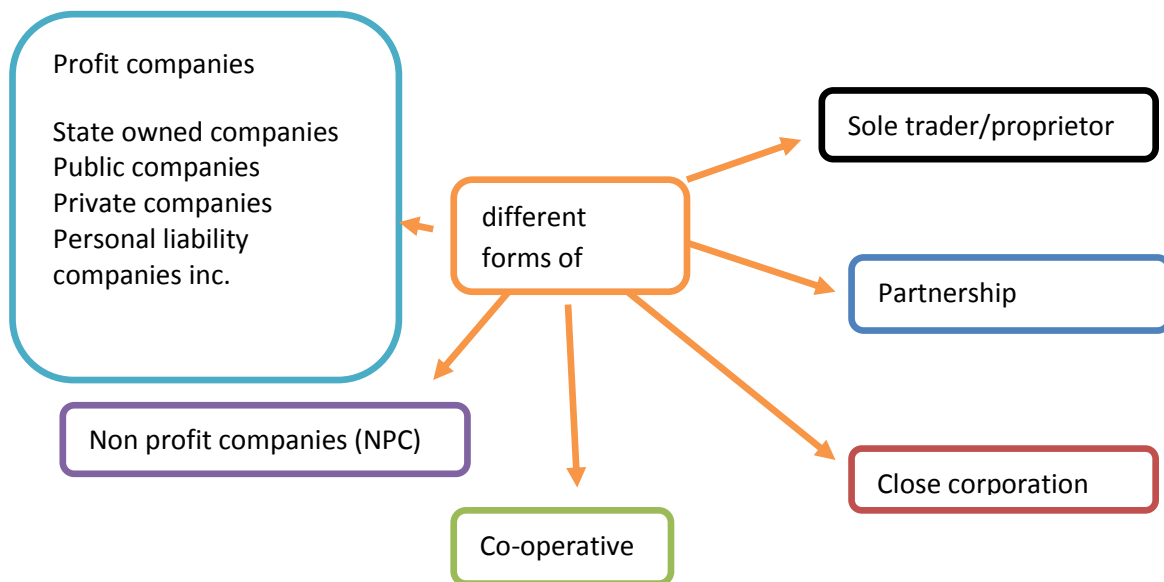
# Topic 6 The benefits of a company over other forms of ownership

## Overview

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This topic looks at:

- The benefits and challenges of establishing a company versus other forms of ownership
- The formation of companies.



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## 1 The characteristics of the different forms of ownership

### 1.1 Sole Trader

This is a business owned by one person

A sole trader is someone who owns a business with no other owners; she/he contributes all the capital or borrows it from someone else, usually manages it alone and/or with the help of employees, bears all the responsibilities and gains all the profits.

#### CHARACTERISTICS OF A SOLE TRADER

- Only 1 person owns the business.
- If the owner dies or retires, this business no longer exists. There is a lack of continuity.

- The owner is responsible for all the debts of the business, should it go insolvent. This means that he/she has unlimited liability.
- A sole trader is usually a person who has business acumen (sense).
- Sole traders have a close relationship with their customers.
- The business and the owner are not separate – this business is not a legal entity (personality).
- It is an easy and uncomplicated way of forming a business.

## **FORMING A SOLE TRADER**

There are no legal requirements when forming a sole trader. The person must however, make sure that she/he complies with any requirements laid down by local authorities – a licence might be necessary.

### **Advantages**

- Easy to form
- No special formalities
- No costs involved

### **Disadvantages**

- Unlimited liability
- No continuity if the owner dies
- Limited resources
- Difficult to expand

## **1.2. Partnerships**

A partnership is where between 2 to 20 owners contribute or combine their skills, experience, labour, goods, knowledge and capital to make and share profits. The actions of each partner affect the business as a whole and all the partners are responsible to the partnership and each other.

### **CHARACTERISTICS OF A PARTNERSHIP**

- A partnership consists of between 2 to 20 partners (owners).
- If one of the partners resigns or dies, the partnership no longer exists.
- All the partners are jointly and severally liable. This means that each partner is liable as individuals and as a partnership for any debts of the business. This also means that they have unlimited liability.
- A partner is an agent of the business and acts on behalf of the other partners when conducting business.
- It may be formed orally or in writing.
- A partnership may be formed for a once-off venture or for a longer period of time.
- It is not a legal personality. The partners and the partnership are not separate.

### **FORMING A PARTNERSHIP**

Partnerships are formed orally or in writing. The written contract is drawn up by an attorney and is called the Partnership Agreement.

### **THE PARTNERSHIP AGREEMENT INCLUDES THE FOLLOWING**

- The name of the partnership.

- The names of the partners.
- The duties of each partner.
- The aim and nature of the partnership.
- The contribution of each partner.
- How the profits will be shared or how the losses will be divided.
- How disputes (disagreements) will be settled.
- Salaries paid to partners.
- How leave is allocated.
- Any insurance.
- Any drawings allowed.
- How interest will be paid.

### **Advantages**

- Greater financial capacity.
- Freedom and flexibility in decision making
- Combines special skills

### **Disadvantages**

- Easily dissolved and can be unstable.
- Unlimited liability
- Can be difficult to raise large amounts of money

## **1.3 Close Corporations**

A close corporation is a simple, inexpensive way of forming a legal personality.

### **CHARACTERISTICS OF A CLOSE CORPORATION**

- The members of a close corporation may be from 1 to 10.
- The name must end in CC.
- It is separate from its members (owners). This means that this business is a legal entity.
- A close corporation has unlimited continuity. A change in members does not affect the continuity of the business.
- The members are not liable for debts of the business. They have limited liability.
- A document called the Founding Statement is drawn up to form a CC.
- Ownership is expressed as a percentage (%) interest in the business. The total % interest of all the members of the CC will be equal to 100%. For example: if 4 members have an equal % interest in the close corporation then each will have a 25 % ownership

### **FORMATION OF A CLOSE CORPORATION**

A Founding Statement is used to form a close corporation. This document is a written agreement. It must be registered with the Registrar of Close Corporations.

### **CONTENTS OF THE FOUNDING STATEMENT**

- The name of the business.
- The aims of the business.
- The address of the registered office.
- The names, identity numbers and address of each member.
- The contribution of each member.
- The size of interest, expressed as a percentage, of each member.
- Details of the accounting officer and her/his consent to act as accounting officer.

**Advantages**

- Legal entity
- Does not require audited financial statements
- All members may take part in management
- Limited liability
- Easy to register and start

**Disadvantages**

- Only 10 members allowed
- Members are bound by the actions of each other
- Needs to have an accounting officer
- Taxed as if it were a company

## **2 The benefits and challenges of establishing a company versus other forms of ownership**

### **2.1 Benefits**

- More owners means the possibility of more capital
- More capital means greater possibility for expansion and growth
- Shareholders appoint a board of directors that gives more effective management
- A separate legal entity
- Continuity of existence
- Profit on company tax is paid at a fixed rate.

### **2.2 Challenges**

- Expensive and complicated formation procedures
- Many legal requirements to comply with
- If the directors are not competent then the shareholders' investments may be at risk.

## 3 The formation of companies

### 3.1 Registration

The Memorandum of Association must be drawn up.

It must be filed together with the Notice of Incorporation with the Companies and Intellectual Property Commission.

The Six Steps in forming a company

- The company name is reserved and the fees are paid to the Registrar of Companies and Intellectual Property Commission.
- The certificate to commence business is submitted with the formation documents
- The company opens a bank account
- The company registers for income tax, VAT and employee withholding tax with the local Receiver of Revenue.
- The company registers for UIF with the Department of Labour
- The company registers with the commissioner for the Compensation for occupational Injuries and Diseases Act ( COIDA)

### 3.2 The company's charter – the Memorandum and Articles of Association

**THE MEMORANDUM OF ASSOCIATION** defines the scope of a company and includes the following:

- Company's name
- Address of the registered office
- Stating of the limited liability of the shareholders
- The amount of share capital
- The purpose of the company

**THE ARTICLES OF ASSOCIATION** indicate the internal management regulations and include the following:

- Names of the directors and their roles
- The way in which profits will be distributed
- The internal rules for the running of the company
- Meetings
- Voting rights of shareholders

### 3.3 The Prospectus

*A prospectus is a written invitation, issued to the public offering shares/securities in exchange for money.*

A prospectus must convince the public that they should buy shares in the company. It states:

- the purpose of the offer
- the share capital
- the shares issued
- property owned
- preliminary expenses
- amounts due to the promoters
- particulars of shares

- the minimum subscription\*
- Name of the company – incorporation and commencement of the company

Members of the public have 60 days to reply to the invitation.

\* The minimum subscription

Before a public company may commence the company must prove that enough shares have been issued to cover the costs of launching the company and any other initial expenses that may be incurred. This is called the minimum subscription and they must be sold within 60 days of issuing the prospectus otherwise the public company may not commence business.

### **3.4 Underwriting**

To ensure that the minimum subscription is met, a bank or other financial institution may guarantee to buy any shares not yet sold in order to make up the minimum capital requirements.

***This ensures that –***

- the minimum subscription will be sold
- the business can commence as a public company.

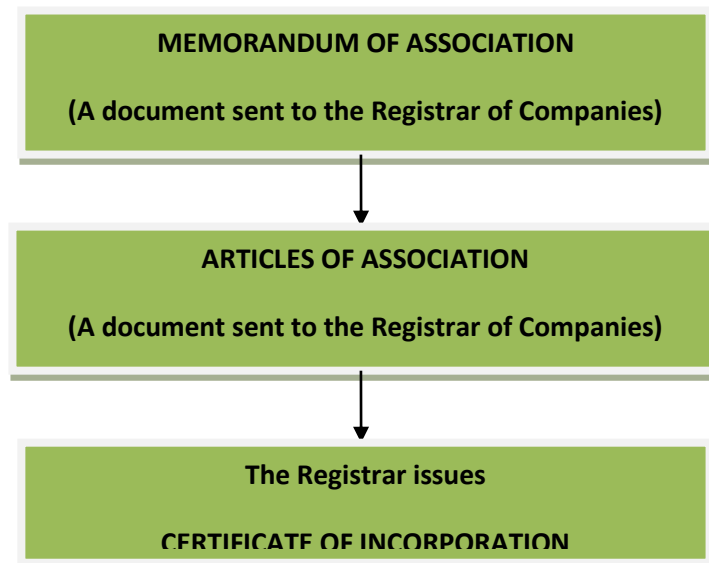


## 4 A Private Company

### 4.1 Characteristic of a private company

- A minimum number of 1 and a maximum number of 50 people may start a private company.
- The name of the company must end in (Pty) Ltd. (proprietary limited)
- Private companies are normally medium-sized businesses.
- The company can only expand by selling shares up to 50 shareholders.
- Shareholders have limited liability- if the company goes insolvent the shareholders (owners) are responsible for the debts of the business in their personal capacity. They are only liable for the amount invested in shares in the business.
- A private company has unlimited continuity.
- It is a legal entity. This form of ownership can sue or be sued in its name.
- It is managed by a Board of Directors voted in by the shareholders.
- Shareholders cannot sell their shares on the Johannesburg Stock Exchange (JSE) - the public are not invited to take up shares.
- Shares are not freely transferable. All the owners must agree on who is invited to become a shareholder of a private company.

### 4.2 The steps in forming a private company

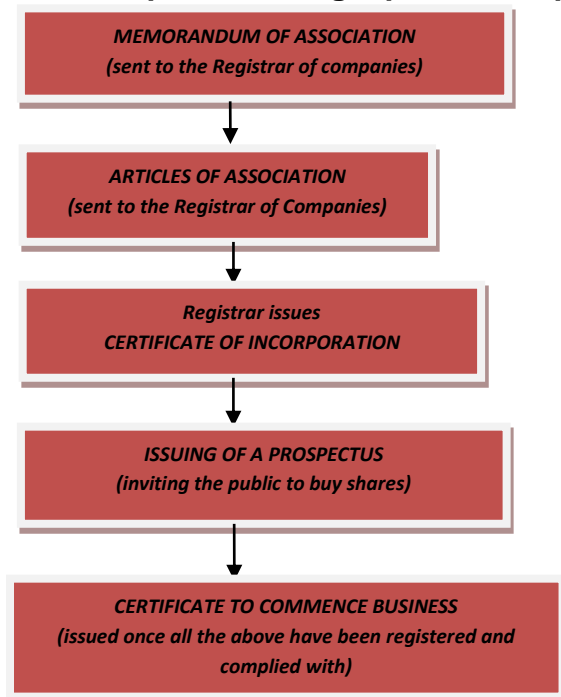


## 5 A public company

### 5.1 Characteristics of a public company

- The minimum number of shareholders is 7 and the maximum depends on the number of shares issued.
- The name must in the words Limited or Ltd.
- A prospectus is issued to invite the public to buy shares in the company.
- Shares are freely transferable.
- The company must adhere to the regulations in the Companies Act.
- Must receive a Certificate to Commence Business from the Registrar of Companies before commencing business.
- Assets and liabilities are the sole responsibility of the company.
- The accounting records of the company have to be audited.
- An AGM (Annual General Meeting) of shareholders must be called. Shareholders can vote by proxy – give another shareholder the authority to vote on their behalf.
- The financial statements (Balance Sheet and Income Statement) must be published annually.
- Any changes to the constitution (Memorandum of Association and Articles of Association) can only be done by special resolution at a special meeting of shareholders.
- The voting rights and dividends (division of profits) will depend on the number and kinds of shares held by each shareholder.
- A public company is a legal entity and pays tax.
- It has unlimited continuity and continues to exist even if the shareholders change.
- The shareholders have limited liability. They are not personally responsible for the debts of the company if it goes insolvent. They will lose only the amount invested in shares.

### 5.2 The steps in forming a public company



When deciding on the form of ownership, a business owner must make a decision based on his/her needs and situations. There are, however, certain factors which have to be considered when this decision is made.

## 6 Factors to be considered when deciding on which form of business to choose

- **Capital** – how much and how will it be raised?
- **Management** – who will run/manage the business?
- **Adaptability** – will the business be able to adapt to changing situations?
- **Profit Sharing** – who will receive profits or share the losses and how?
- **Control** – are there voting rights and who makes the decisions?
- **Number Of Owners** – how many people are owners?
- **Income Tax** – what tax rates apply?
- **Continuity** – can the business continue to exist if owners join or leave?
- **Liability** – are owners personally responsible in the event of bankruptcy?

## 7 Tax Implications

- All businesses in the formal sector pay tax.
- Taxation is one of the factors that are considered in deciding on the form of ownership.
- Tax is paid usually as a percentage or rate of profits made by each business.
- The rate of taxation can vary for each type of ownership. Some types of ownerships pay more or less than others.
- A company is taxed on its profits and then the shareholders (owners) are also taxed on the dividends that they receive.

## 8 VAT (Value Added tax)

- VAT rate is 14%.
- VAT is collected at every stage in the production and distribution process of goods and services.
- Businesses with an annual turnover and self-employed people earning more than R150 000 a year are required to register as vendors.

### End of topic questions

#### Short Questions

1. What is a company? Define and name the 2 types. (6)
2. What characteristics do private and public companies have in common? (8)
3. What is a CC? (4)
4. How is a partnership formed? (6)
5. Tabulate the differences between a private and a public company. (12)

#### DIFFERENCES BETWEEN A PRIVATE AND A PUBLIC COMPANY

<i>Characteristic:</i>	<u>PRIVATE CO.</u>	<u>PUBLIC CO.</u>
No. of shareholders?		
Name end?		
Issue of shares?		
Transferability of shares?		
When they may start trading? (Document)		
Main reason for this type of company?		

6. Tabulate the differences between a sole trader, a partnership and a close corporation. (21)

**DIFFERENCES BETWEEN A SOLE TRADER, PARTNERSHIP AND A CLOSE CORPORATION.**

	SOLE TRADER	PARTNERSHIP	CLOSE CORPORATION
<i>Name</i>			
<i>No. of owners</i>			
<i>Liability</i>			
<i>Continuity</i>			
<i>Formation</i>			
<i>Profit sharing</i>			
<i>Transfer of ownership</i>			

**Longer questions**

7. What factors (nine) need to be considered when deciding on a form of ownership? (18)
8. Explain a sole trader and its characteristics. (12)
9. Discuss the following:
- 9.1 a prospectus (6)
- 9.2 minimum subscription (6)
- 9.3 underwriting (6) (18)
10. Regarding partnerships, give the following:
- 10.1 a definition (4)
- 10.2 characteristics (6) (10)
11. List 5 aspects included in a partnership agreement. (10)
12. Mention 5 characteristics of a CC. (10)
13. What is the document called that is drawn up to form a CC and what does it contain? (12)
14. Differentiate between a Memorandum of Association and the Articles of Association (14)

## End of topic answers

1. A company is a legal entity that conducts business. ✓✓ It may be a private company ✓✓ or a public company ✓✓ (6)

2.

Shareholders appoint a board of directors ✓✓

A separate legal entity ✓✓

Continuity of existence ✓✓

Profit on company tax is paid at a fixed rate ✓✓ (8)

3. A Close Corporation is a legal entity. ✓✓✓✓ (4)

4. Partnerships are formed orally or in writing ✓✓ between 2-20 people ✓✓ The written contract is drawn up by an attorney and is called the Partnership Agreement ✓✓ (6)

5. (12)

<i>Characteristic:</i>	<b><u>PRIVATE CO.</u></b>	<b><u>PUBLIC CO.</u></b>
No. of shareholders?	1-50 ✓✓	7 upwards ✓✓
Name end?	(Pty)Ltd ✓✓	Ltd ✓✓
Issue of shares?	Privately ✓✓	To the public ✓✓
Transferability of shares?	No, by invitation only ✓✓	On the JSE ✓✓
When they may start trading? (Document)	Certificate of incorporation ✓✓	Certificate to commence business ✓✓
Main reason for this type of company?	Small or family businesses ✓✓	Needing a large amount of capital ✓✓

### DIFFERENCES BETWEEN A SOLE TRADER, PARTNERSHIP AND A CLOSE CORPORATION.

6.

	<b>SOLE TRADER</b>	<b>PARTNERSHIP</b>	<b>CLOSE CORPORATION</b>
<i>Name</i>	No special ending ✓✓	No special ending ✓✓	End in CC ✓✓
<i>No. of owners</i>	1 ✓✓	2-20 ✓✓	1-10 ✓✓
<i>Liability</i>	unlimited ✓✓	unlimited ✓✓	limited ✓✓
<i>Continuity</i>	no ✓✓	no ✓✓	yes ✓✓
<i>Formation</i>	No requirements ✓✓	Partnership Articles ✓✓	CK1 and registration ✓✓
<i>Profit sharing</i>	no ✓✓	As agreed ✓✓	According to share membership ✓✓
<i>Transfer of ownership</i>	no ✓✓	no ✓✓	Sell membership with agreement of other members ✓✓

7.

**Capital** – how much and how will it be raised? ✓✓

**Management** – who will run/manage the business? ✓✓

**Profit Sharing** – who will receive profits or share the losses and how? ✓✓

**Control** – are there voting rights and who makes the decisions? ✓✓

**Number Of Owners** – how many people are owners? ✓✓

**Income Tax** – what tax rates apply? ✓✓

**Continuity** – can the business continue to exist if owners join or leave? ✓✓

**Liability** – are owners personally responsible in the event of bankruptcy? ✓✓ (9 x 2 = 18)

8.

Only 1 person owns the business.

If the owner dies or retires, this business no longer exists. There is a lack of continuity. ✓✓

The owner is responsible for all the debts of the business, should it go insolvent. This means that he/she has unlimited liability. ✓✓

A sole trader is usually a person who has business acumen (sense). ✓✓

Sole traders have a close relationship with their customers. ✓✓

The business and the owner are not separate – this business is not a legal entity (personality). ✓✓

It is an easy and uncomplicated way of forming a business. (any 6 x 2 = 12) ✓✓

9.

9.1 A prospectus is a written invitation, ✓✓ issued to the public ✓✓ offering shares/securities in exchange for money. ✓✓ (6)

9.2 A public company must prove that enough shares have been issued to cover the costs of launching the company and any other initial expenses that may be incurred. ✓✓ This is called the minimum subscription and they must be sold within 60 days of issuing the prospectus ✓✓ otherwise the public company may not commence business. ✓✓ (6)

9.3 To ensure that the minimum subscription is met ✓✓, a bank or other financial institution may guarantee to buy them ✓✓ should the public not buy enough. ✓✓ (6)

10.

10.1 A partnership is where between 2 to 20 owners contribute or combine their skills, experience, labour, goods, knowledge and capital to make and share profits. ✓✓ The actions of each partner affect the business as a whole and all the partners are responsible to the partnership and each other. ✓✓ (4)

10.2

A partnership consists of between 2 to 20 partners (owners). ✓✓

If one of the partners resigns or dies, the partnership no longer exists. ✓✓

All the partners are jointly and severally liable. This means that each partner is liable as individuals and as a partnership for any debts of the business. This also means that they have unlimited liability. ✓✓

A partner is an agent of the business and acts on behalf of the other partners when conducting business.

It may be formed orally or in writing. ✓✓

A partnership may be formed for a once-off venture or for a longer period of time. ✓✓

It is not a legal personality. The partners and the partnership are not separate. ✓✓ (any 3 x 2 = 6) [10]



**11**

The name of the partnership. ✓✓  
The names of the partners. ✓✓  
The duties of each partner. ✓✓  
The aim and nature of the partnership. ✓✓  
The contribution of each partner. ✓✓  
How the profits will be shared or how the losses will be divided. ✓✓  
How disputes (disagreements) will be settled. ✓✓  
Salaries paid to partners. ✓✓  
How leave is allocated. ✓✓  
Any insurance. ✓✓  
Any drawings allowed. ✓✓  
How interest will be paid. ✓✓ (any 5 x 2 = 10)

**12.**

The members of a close corporation may be from 1 to 10. ✓✓  
The name must end in CC. ✓✓  
It is separate from its members (owners). This means that this business is a legal entity. ✓✓  
Has unlimited continuity. A change in members does not affect the continuity of the business. ✓✓  
The members are not liable for debts of the business. They have limited liability. ✓✓  
A document called the Founding Statement is drawn up to form a CC. ✓✓  
Ownership is expressed as a percentage (%) interest in the business. The total % interest of all the members of the CC will be equal to 100%. ✓✓ (5 x 2 = 10)

13. A Founding Statement is used to form a close corporation. ✓✓ (2)

**CONTENTS:**

The name of the business. ✓✓  
The aims of the business. ✓✓  
The address of the registered office. ✓✓  
The names, identity numbers and address of each member. ✓✓  
The contribution of each member. ✓✓  
The size of interest, expressed as a percentage, of each member. ✓✓  
Details of the accounting officer and her/his consent to act as accounting officer. ✓✓ (any 5 x 2 = 10)(10)

14. **THE MEMORANDUM OF ASSOCIATION defines** the scope of a company and includes the following: ✓✓

- Company's name ✓
- Address of the registered office ✓
- Stating of the limited liability of the shareholders ✓
- The amount of share capital ✓
- The purpose of the company ✓ (7)

**THE ARTICLES OF ASSOCIATION** indicate the internal management regulations and include the following: ✓✓

- Names of the directors and their roles ✓
- The way in which profits will be distributed ✓
- The internal rules for the running of the company ✓
- Meetings ✓
- Voting rights of shareholders ✓ (7)(14)

**Adaptability** – will the business be able to adapt to changing situations? ✓✓

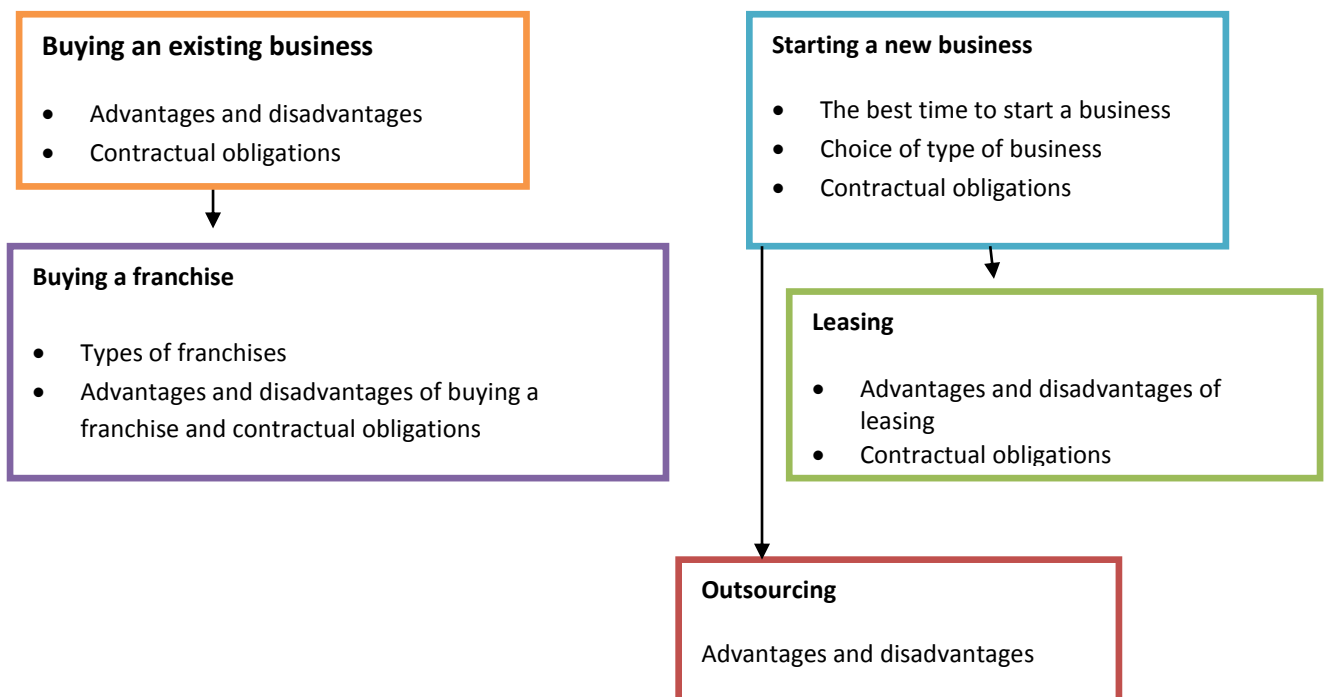
# Topic 7 Avenues of acquiring a business

## Overview

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This topic discusses the following aspects of acquiring a business:

- Establishing a new business
- Buying an existing business
- Acquiring a franchise
- Outsourcing
- Leasing business assets



# 1 Starting up a new business

The best time to start up a new business is when:

- A market is expanding and the existing businesses cannot keep up with customer demand
- Existing competitors are providing a bad service or bad quality goods
- You have a new product or service that is not provided by any other business.

## 1.1 Issues to be considered when startup a new business:

- Will the product or service customers away from competitors?
- Does the future owner have enough interest and knowledge of the business and the product?
- Can the owner source enough funding for starting up the new business?
- Will the new owner be able to develop and attend to all the business functions?

Advantages and disadvantages of starting a new business	
Advantages	Disadvantages
<p>Cheaper as there is no goodwill to pay for.</p> <ul style="list-style-type: none"><li>• Do not take over the problems of an existing business.</li><li>• Freedom to introduce new equipment, techniques, procedures and staff.</li><li>• Greater impact on the character of the business.</li><li>• If capital is limited the business can start on a smaller scale.</li></ul>	<ul style="list-style-type: none"><li>• Nothing to measure the new business against to determine whether the business will be successful.</li><li>• Competition and demand for the product or service are not tested.</li><li>• No established systems and procedures in place.</li><li>• An extra business sub-divides the market even further.</li><li>• Initial costs may limit cash flow.</li></ul>

## 1.2 Contractual obligations

- A sole trader has no contractual obligations.
- If two or more persons form a partnership a formal agreement (partnership agreement) is recommended.
- Normal legal requirements related to running a business also apply e.g. registration for tax purposes.
- The new business will have to enter into contracts with employees, suppliers, banks, landlords and customers if credit is supplied.

## 2 Buying an existing business

Starting a new business is a high risk venture. Another option is to buy an existing business which is already making a profit.

### 2.1 Issues to be considered:

- How does the cost of buying an existing business compare with setting up a similar business from scratch?
- Why is the business being sold?
- Who are the current suppliers to the business and will they be willing to continue supplying to a new owner?
- Are there audited financial statements and tax returns for at least the past three years?
- Do all the assets and stocks actually exist and have they been fairly evaluated?

Advantages and disadvantages of buying an existing business	
Advantages	Disadvantages
<p>Easier to raise finance if the business has a good history.</p> <p>Immediate cash flow as there are already established customers.</p> <p>Distribution, supply links and staff are already established.</p> <p>The market is not being further divided by an extra business.</p> <p>Existing assets form part of the business and do not need to be bought.</p>	<p>Risk of over-estimation of turnover or profit by seller.</p> <p>Success of a business often rests on the reputation of the previous owner or a key staff member (like a chef).</p> <p>Seller may attempt to overstate the return the new owner can expect to make on the investment.</p>

### 2.2 Contractual obligations and legalities

The new owner may have to take over existing contracts with employees and suppliers and may have to enter into some new agreements.

The new owner may insist on a restraint of trade clause in the deed of sale to prevent the seller from starting a similar business in the same geographical area.

When the business acquired is a legal entity (for instance, a CC or private company) most legalities will just continue.

### 3 Acquiring a franchise

#### 3.1 Issues to be considered:

**A franchise** is the right a business has to use the name, brand, ideas, processes and goodwill of an existing business in a specific geographic area in order to sell its goods or services.

**The franchisor** is the person who created the good or services and then sells the right to produce them to another person.

**The franchisee** is the person or organisation that buys the franchise.

By buying a franchise, the entrepreneur is able to run a business that has an established name, products and reputation.

The **franchisee** (the person buying the franchise) has access to technical and managerial support from the **franchisor** (the person who owns the franchise).

A **Franchise Agreement** is drawn up when a franchise is sold and it is a legally binding document.

By selling a business with a known name and set of procedures and operations, the franchisor is able to control the quality of the goods or services delivered.

**The Franchise Association of South Africa (FASA)** exists to support and advise franchise owners.

The franchise option can be acquired by:

- Starting a new business from scratch and buying a franchise right for the new business
- Buying an existing business without a franchise and acquiring a franchise right for the existing business
- Buying an existing business that is already operating as a franchise

There are three main types of franchises:

- Product franchise, where the franchisee acts as a retailer to sell specific products, for instance Specsavers
- A system franchise, where the franchisor allows the franchisee to do business in a unique way e.g. Master Maths
- A manufacturing agreement franchise, where the franchisor provides an essential ingredient or know-how, for instance Seattle Coffee shops.

Advantages and disadvantages of acquiring a franchise	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Other successful franchises can be studied before making a commitment.</li> <li>• A recognised brand name and trademark.</li> <li>• Will benefit from any advertising or promotion by the franchisor.</li> <li>• Franchisor gives the business support in the form of training, setting up the business, how to operate the business and advice.</li> <li>• Franchisee obtains exclusive rights in a certain geographical area.</li> <li>• Banks are more likely to lend money to buy a franchise with a good reputation.</li> <li>• The business can communicate, get support and share ideas with other franchisees in the network.</li> <li>• Relationships with suppliers have already been established.</li> </ul>	<ul style="list-style-type: none"> <li>• The costs may be higher than expected. the business will continue paying royalties and may have to agree to buy products from the franchisor.</li> <li>• There may be restrictions in the franchise agreement on the business may be operated.</li> <li>• The franchisor might go out of business.</li> <li>• Other franchisees could give the brand a bad reputation.</li> <li>• It may be difficult to sell the business together with the franchise.</li> <li>• A percentage of sales usually are shared with the franchisor.</li> </ul>

#### 3.2 Contractual obligations and legalities

The franchisor and franchisee will enter into a formal agreement which stipulates the roles, rights and responsibilities of both parties. The agreement will also specify the following payments: the initial fee; monthly management fee; royalties on turnover; fees for machinery and equipment; and fees for advertising.

**A franchise agreement must include the following:**

- TERMS AND CONDITIONS – A summary of what each party is required to do.
- THE FRANCHISEE'S PAYMENTS –The initial franchise fee, royalties, renewal fees, etc.
- WHAT THE FRANCHISOR OFFERS – The providing of training, equipment, store plans, stock, fittings, working capital, advertising and anything else agreed upon.

## 4 Outsourcing

Outsourcing means contracting out to a third party a task, operation, job or process that could be performed by employees within a business.

Functions that can be outsourced include the payroll, human resource recruitment, cleaning, e-commerce, marketing, security and bookkeeping services.

Hiring a temporary employee while the secretary is on maternity leave is not outsourcing.

A sub-contract is when a subordinate contract under which supply of materials or labour is let out to someone other than the main contractor. For example a building contractor may subcontract out many of the tasks involved in building a house such as electrical wiring or plumbing.

### 4.1 Issues to be considered.

- Why must the operation be outsourced?
- Can the operation really be outsourced?
- Is the expertise required readily available and how much will it cost?
- How much time and effort will be needed to manage and monitor the outsourcing?
- How much accountability will go with the outsourcing function?
- Are there any hidden costs like retrenchment or training costs?

Advantages and disadvantages of outsourcing	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Allows the business to focus on its core functions.</li> <li>• Saves on costs and improve efficiency.</li> <li>• Can reduce overhead expenses.</li> <li>• Regains control over an operation,</li> <li>• Provides staff flexibility during peak times,</li> <li>• Provides continuity and reduce risks,</li> <li>• Develops internal staff by letting internal staff work with the outsourced experts on a project to learn new skills.</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of managerial control</li> <li>• Hidden costs,</li> <li>• Threat to security and confidentiality.</li> <li>• Quality problems.</li> <li>• Tied to the financial well-being of another company.</li> <li>• Poor internal and external publicity,</li> </ul>

## 5 Leasing business assets

A lease is a contract by which land or movable property is rented for a specified time by the owner to a tenant. It can include assets such as equipment, buildings, homes, flats, machinery, vehicles, etc.

Start-up capital is needed whether starting a business from scratch, buying an existing business, or even buying a franchise and the entrepreneur may not have sufficient capital to buy all the equipment or other assets needed by the business immediately.

**The lessor** is the person or organisation which agrees to lease the assets to another person or organisation.

**The lessee** is the person or organisation which pays to hire the assets.

### 5.1 Issues to be considered:

- Leasing enables an entrepreneur to start a business without a large capital layout.
- Leasing can be defined as legal agreement that gives the business (lessee) the right to use an asset owned by someone else (the lessor) for a specific period of time in return for regular payments.
- It is possible to lease most of the movable assets a business needs, including vehicles, office furniture, store fixtures, computers and manufacturing equipment.

There are two main types of movable asset leases:

**True leases** – The lessee acquires no rights to the property, other than its use, the lessor remains the owner of the leased property and the lessee's rental payments do not give him/her ownership of the item.

**Financial leases** - allow the lessee to purchase the asset at the end of the lease term.

Advantages and disadvantages of leasing	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The business gains use of the asset with no initial expenditure.</li> <li>• The business can acquire the latest technology without having to invest large amounts of capital.</li> <li>• The business does not carry the risk of expensive equipment becoming obsolete. Leased items are returned to the lessee at the end of the term of the lease.</li> <li>• For the lessee the lease payments are tax deductible.</li> <li>• Leasing improves the cash flow of the business.</li> <li>• Leasing is regarded as an expense to the lessee and therefore is not regarded as debt.</li> </ul>	<ul style="list-style-type: none"> <li>• The total of the lease payments may be more than the original purchase price of the leased items.</li> <li>• The lessee is bound by the lease contract even when the business may not need the items any longer.</li> <li>• When the owner wants to sell the business the lease will have to be taken over by the buyer of the business.</li> </ul>

### 5.2 Contractual obligations and legalities

All leasing agreements are concluded using strict legal proceedings and formal contracts are signed between the lessor and the lessee.

When drawing up a lease contract the following aspects need to be established:

- The lease period – the time period for which you intend using the premises or items and whether there is an option to renew.
- The cost over the period of the lease – this includes the basic rental, operating costs, and maintenance and security services.
- The annual escalation clause – this means that the rent will increase by a certain percentage each year.



## End of topic questions

### Multiple choice

1. The following is not an advantage of outsourcing:
  - A. Allows the business to focus on its core functions.
  - B. Saves on costs and improve efficiency.
  - C. Can reduce overhead expenses.
  - D. It is tied to the financial well-being of another company
  
2. A franchisor is:
  - A. A person or business who buys the right to produce the goods or services of another person.
  - B. A person who sells the right to produce their goods or services to another person or business.
  - C. A legal contract between two franchisees.
  - D. A start-up business.

### Short Questions

3. Discuss franchising in the following ways:
  - 3.1 Give a definition (6)
  - 3.2 Explain what must be included in a franchise contract (8)
  - 3.3 Mention 5 advantages (10)
  - 3.4 Mention 2 disadvantages (4)
  - 3.5 The meaning of FASA (2) (30)
4. Explain what is meant by 'outsourcing'. (6)
5. What is a lease? (4)
6. Mention 3 aspects that need to be included in a lease contract. (6)
7. What any 5 advantages of buying an existing business. (10)
8. Give three reasons why it may be a disadvantage for a business to lease moveable assets. (6)

### Longer Question

9. Joe Mbololo wants to start a coffee shop and sell really good coffee and snacks. Write a brief report explaining to Joe what is meant by the term "outsourcing" and also suggest to him three aspects of running his coffee shop that he could consider outsourcing. (26)

## End of topic answers

1. D

2. B

3.

3.1 A franchise is the right a business has to use the name, brand, ideas, processes and goodwill of an existing business in a specific geographic area in order to sell its goods or services. ✓✓✓✓✓✓ (6)

3.2

TERMS AND CONDITIONS – A summary of what each party is required to do. ✓✓

THE FRANCHISEE'S PAYMENTS – The initial franchise fee, royalties, renewal fees, etc. ✓✓

WHAT THE FRANCHISOR OFFERS – The providing of training, equipment, store plans, stock, fittings, working capital, advertising and anything else agreed upon ✓✓✓✓✓✓ (8)

3.3

• Franchisor gives the business support in the form of training, setting up the business, how to operate the business and advice. ✓✓

• Franchisee obtains exclusive rights in a certain ✓✓  
geographical area.

• Banks are more likely to lend money to buy a franchise with a good reputation. ✓✓

• The business can communicate, get support and share ideas with other franchisees in the network. ✓✓

• Relationships with suppliers have already been established. ✓✓ (5 x 2 = 10)

3.4

• The costs may be higher than expected. the business will continue paying royalties and may have to agree to buy products from the franchisor. ✓✓

• There may be restrictions in the franchise agreement on the business may be operated. ✓✓

• The franchisor might go out of business. ✓✓

• Other franchisees could give the brand a bad reputation. ✓✓

• It may be difficult to sell the business together with the franchise. ✓✓

• A percentage of sales usually are shared with the franchisor. ✓✓ (any 2 x 2 = 4)

3.5 The Franchise Association of South Africa ✓✓

(2) (30)

4. Outsourcing means contracting out ✓✓ to a third party ✓✓ a task, operation, job or process that could be performed by employees within a business. ✓✓ (6)

5. A lease is a contract ✓✓ by which land or movable property is rented for a specified time by the owner to a tenant. It can include assets such as equipment, buildings, homes, flats, machinery, vehicles, etc. ✓✓ (4)

6. The lease period ✓✓ The cost over the period of the lease ✓✓ The annual escalation clause ✓✓ (6)

7. Easier to raise finance if the business has a good history. ✓✓

Immediate cash flow as there are already established customers. ✓✓

Distribution, supply links and staff are already established. ✓✓

The market is not being further divided by an extra business. ✓✓

Existing assets form part of the business and do not need to be bought. ✓✓ (5 x 2 = 10)

8. The total of the lease payments may be more than the original purchase price of the leased items. ✓✓

✓✓

The lessee is bound by the lease contract even when the business may not need the items any longer. ✓✓

When the owner wants to sell the business the lease will have to be taken over by the buyer of the business✓✓

(3 x 2 = 6)

9. Outsourcing means contracting out to a third party a task, operation, job or process that could be performed by employees within a business. ✓✓ ✓✓ ✓✓

Joe can outsource several of his operations such as the payroll, human resource recruitment, cleaning, e-commerce, marketing, security and bookkeeping services. ✓✓ ✓✓ ✓✓

There are several reasons why this would be advantageous to Joe:

- Allows the business to focus on its core functions. ✓✓
- Saves on costs and improve efficiency. ✓✓
- Can reduce overhead expenses. ✓✓
- Provides staff flexibility during peak times. ✓✓
- Develops internal staff by letting internal staff work with the outsourced experts on a project to learn new skills. ✓✓

Joe could then concentrate on his core business of providing really good food✓✓ without having to pay for extra staff to provide these other services and supervise staff. Outsourcing would be cheaper.

✓✓✓✓

(26)

# Term 2 Introduction

## Topic 1 Creative thinking and problem-solving

Topic 1 describes how creative thinking is necessary for solving problems. It explains various problem-solving techniques. These can be used in a business to generate new ideas and find solutions to business problems. Creative solutions found in this way need to be assessed against the reality of the business environment.

## Topic 2 Stress and crisis management

Topic 2 deals with stress, crises and change in the workplace. Stress, crises and change need to be factored into the general management structures of a business. Where necessary, special units or sections may have to be deployed to support management and the workers.

## Topic 3 Transformation of a business plan into an action plan

Topic 3 shows you how to transform a business plan into an action plan. This is part of project planning. Various planning tools are described in detail in this topic.

## Topic 4 Setting up or starting a business

Topic 4 discusses setting up and starting a business. You need an action plan. This will help you raise capital to fund the start-up of your business. This topic describes the various options for obtaining the necessary capital.

## Topic 5 Professionalism and ethics

Topic 5 describes the differences between professionalism and ethics as well as the relevant theories and principles. The topic suggests how professionalism and ethics relate to the business environment and how they can be applied in effective business practice. The learners evaluate and differentiate between good and bad decisions.

## Topic 6 Presentation of business information

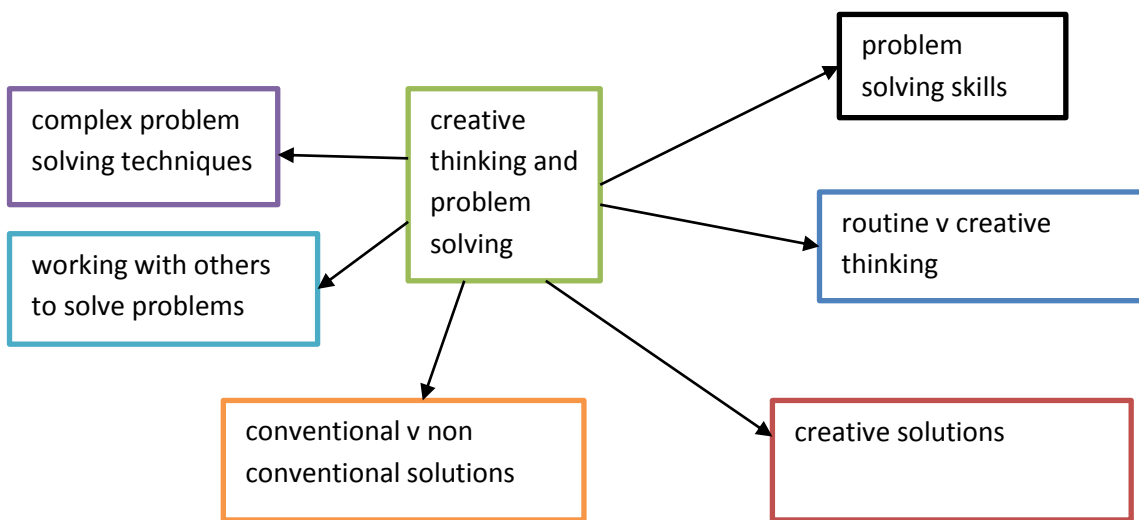
Topic 6 This topic deals with the revision of Grade 10 work related to the presentation of business information in verbal and non-verbal formats, the use of visual aids to support a presentation, and the design and layout of presentations. The topic also deals with the presentation of business information in a written format, among other formal reports. The topic concludes with a section that deals with the question and answer element of a presentation and how to deal with it in a non-aggressive and professional manner.



# Topic 1 Creative thinking and problem solving

## Overview

This topic deals with the application of creative thinking to solve problems



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## 1 Solving business problems and improving business practice.

All businesses have problems that need solving.

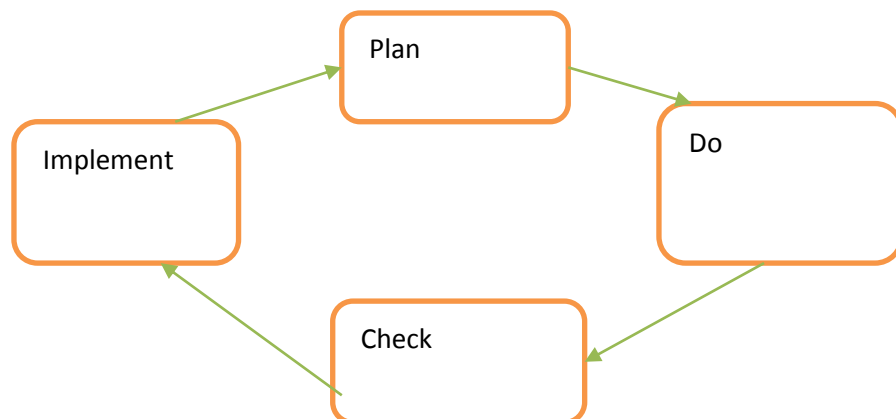
## 2 Using creative thinking to address business problems and improve business practice

Creative thinking is the process used to come up with new ideas. Creative thinking and problem solving are both necessary skills in the workplace because managers and employees need to understand the ever-changing business environment where they operate. Managers must make suitable decisions so that the business challenges are met in order to be in line with technological changes maintain a competitive edge businesses must employ creative thinkers.

Creative thinking is used to:

- develop new products and marketing strategies
- improve the quality of goods and services and customer satisfaction
- challenge assumptions and change perceptions
- generate alternative solutions
- solve conflict in the workplace and encourage teamwork.

### 2.1 Problem-solving skills in a business context



#### 2.1.1 The advantages of using creative thinking:

- shorter and more productive meetings
- better and quicker problem solving and decision making
- more effective and efficient planning and management
- creation of more innovative ideas that lead to better performance

#### 2.1.2 Bench-marking

A problem can only be solved once it has been identified. Performance or productivity can be **benchmarked** against set norms and standards. If the benchmark is not reached there may be a problem within the organisation.

#### 2.1.3 Problem-solving steps

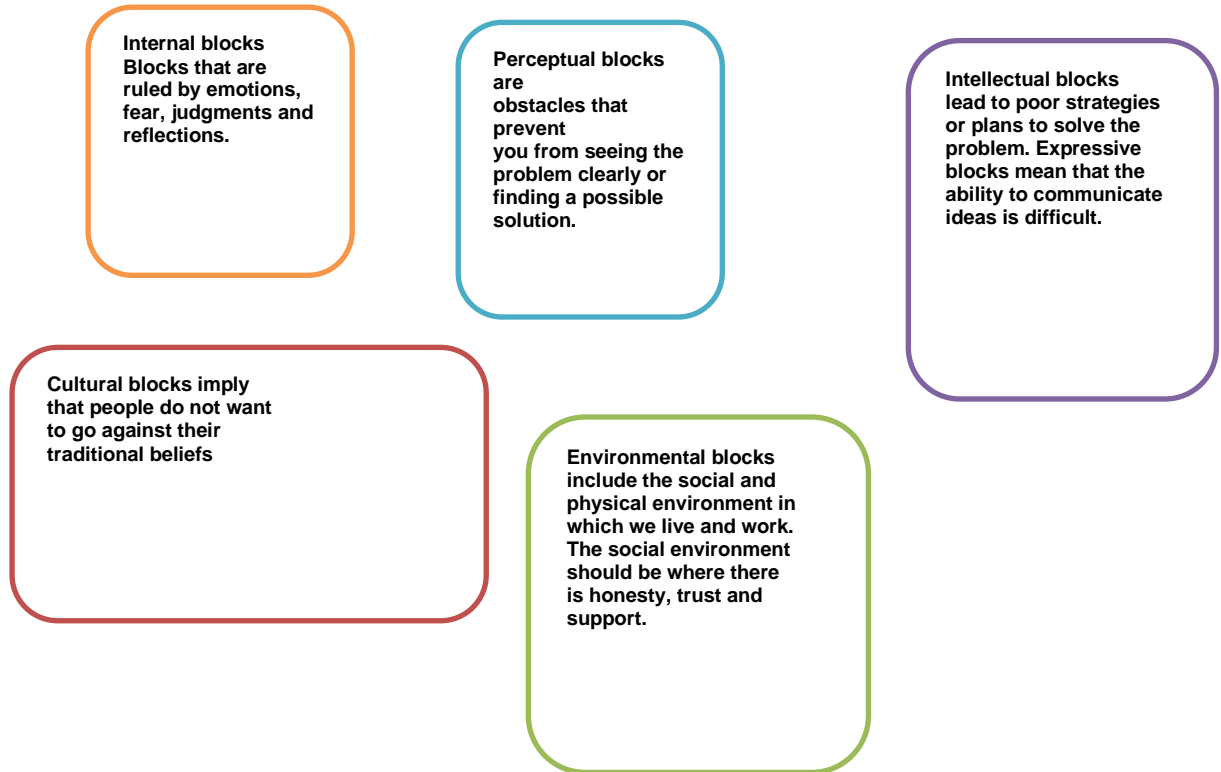
1. Identify the problem and list possible reasons for the problem.
2. Collect data and information about the problem.
3. Analyse all the facts and information in order to understand the problem.
4. Find as many solutions to the problem as possible.
5. Evaluate and select alternative solutions.
6. Develop and implement an action plan to solve the problem.
- 7 Monitor and follow-up to check the end result and ensure the problem was solved.

## 2.2 Routine versus creative thinking

- Routine thinking means doing the same thing and expecting different results.
- Creative thinking means using lateral thinking to solve problems through reasoning and find new solutions.

## 2.3 Mental blocks to creativity and idea generation

Mental blocks to creativity and idea generation are barriers that prevent recognition of a problem or finding a solution to that problem.



## 2.4 More complex problem-solving techniques

- Brainstorming – a group discusses and solves the problem together
- Force field analysis – discussing and evaluating the pros and cons of change.
- The Delphi technique – ideas and opinions are obtained using written or
- Internet communication (similar to brainstorming but not face-to-face)

## 2.4.1 Brainstorming

Brainstorming is a way of generating ideas through a group process.

The steps in brainstorming

<b>STEP 1</b>	Outline the brainstorming process to the group.
<b>STEP 2</b>	Outline the basic rules to be followed: <ul style="list-style-type: none"> <li>* Keep an open mind – don't criticise anyone.</li> <li>* Let yourself go - don't discuss an idea yet.</li> <li>* Generate as many ideas as possible.</li> <li>* Build on the ideas of others.</li> <li>* Write down all the ideas as they arise.</li> </ul>
<b>STEP 3</b>	PRESENT THE PROBLEM TO THE GROUP
<b>STEP 4</b>	APPOINT A RECORDER
<b>STEP 5</b>	STATE THE PROBLEM IN CLEAR TERMS AND BEGIN
<b>STEP 6</b>	SYNTHESISE SIMILAR IDEAS
<b>STEP 7</b>	GROUP THE LISTED IDEAS INTO THREE GROUPS ( Impossible; Unlikely; Possible)
<b>STEP 8</b>	PRIORITISE THE BEST IDEAS

## 2.4.2 Force-field analysis

Can be used when changes in production of goods or services are proposed.

This method takes all the negative forces into account beforehand, so that steps can be taken to minimise them. You can list all the positive forces and strengthen them.

Step 1. List and discuss the various forces that are in favour of the proposed change. These are the **driving forces**.

Step 2. List and discuss the various forces that are against the proposed change. These are the **restraining forces**.

Step 3. Weigh up the pros and cons, or driving forces against the restraining forces.



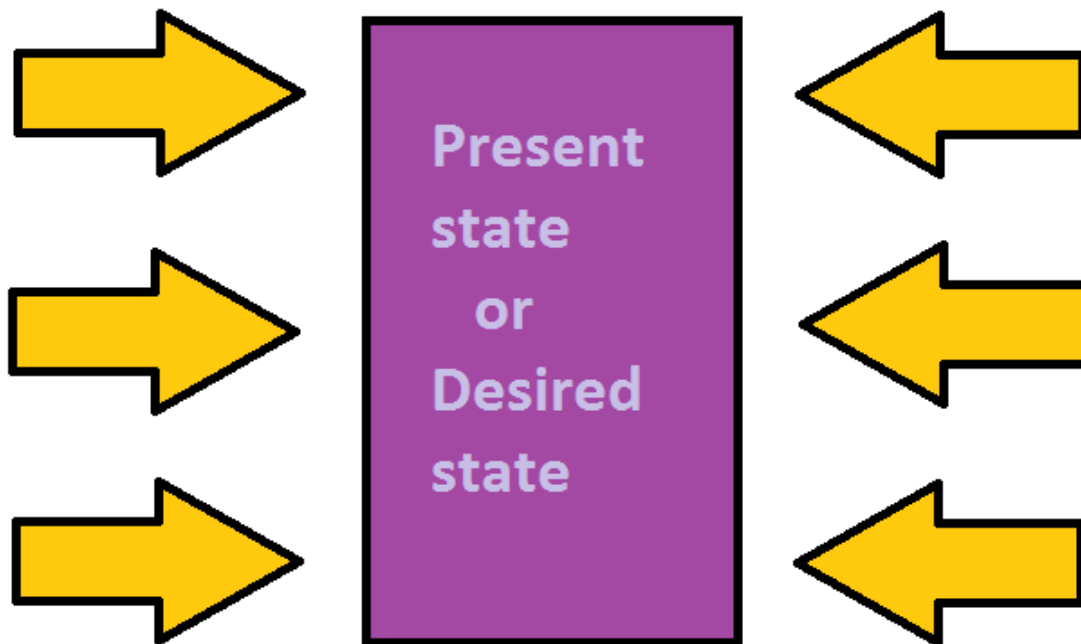
## Force field analysis

Driving forces

(obstacles for change)

Restraining forces

(obstacles to change)



### 2.4.3 The Delphi Technique

The Delphi problem-solving technique can be used to tap brainpower from participants at different places at the same time. Information can be exchanged via mail, FAX, or email. It uses anonymous interviews or involves a series of confidential questionnaires to solve a problem. The

following steps are identified:

**Step 1:** Identify the problem

**Step 2:** Ask group members to write possible solutions to a problem. Do this in the form of a questionnaire.

**Step 3:** Combine the results and give each member a copy of the results

**Step 4:** Experts submit new ideas.

**Step 5:** Combine the new information and give it to the experts again.

**Steps 4 & 5** can be repeated until all members in the group agree.

## **The advantages of the Delphi technique**

- Arguments and disputes are minimised.
- It encourages input from people who do their best work without needing to interact.
- It minimises the influence of participants due to rank or status.
- Free expression is promoted, without fear of being belittled.
- The physical presence of participants is not required.

## **The disadvantages of the Delphi technique.**

1. It can be time-consuming.
2. Bad ideas may be accepted because of a lack of group discussion.
3. There is no opportunity for participants to elaborate or add to someone else's idea.

## **2.5. Working with others to solve problems and generate ideas**

**Synergy** occurs when individuals work together to achieve results that they cannot achieve separately.

### **2.5.1 Creative thinking skills and conventional versus nonconventional solutions**

Problems can be solved using conventional solutions or nonconventional solutions.

- Conventional solutions are the ways that problems are usually solved.
- Non-conventional solutions require you to solve problems in unique ways using creative thinking skills.

### **2.5.2 Indigenous approach and solutions**

- Problems can also be solved by using traditional or indigenous knowledge. This is the knowledge that is unique to the people born in a specific country or from a specific culture.
- These solutions often differ from what is considered mainstream in western society.

### 3 Creative solutions to business problems

- All businesses face uncertainty in the micro (business) environment and especially the market and macro (external) environment.

Businesses may use the PESTLE analysis factors to help them find a creative solution to problems that exist in the macro environment.

PESTLE analysis factors are macro-economic factors that affect a business.

**P - Political factors** What is happening politically? For example, tax policies, changes of government.

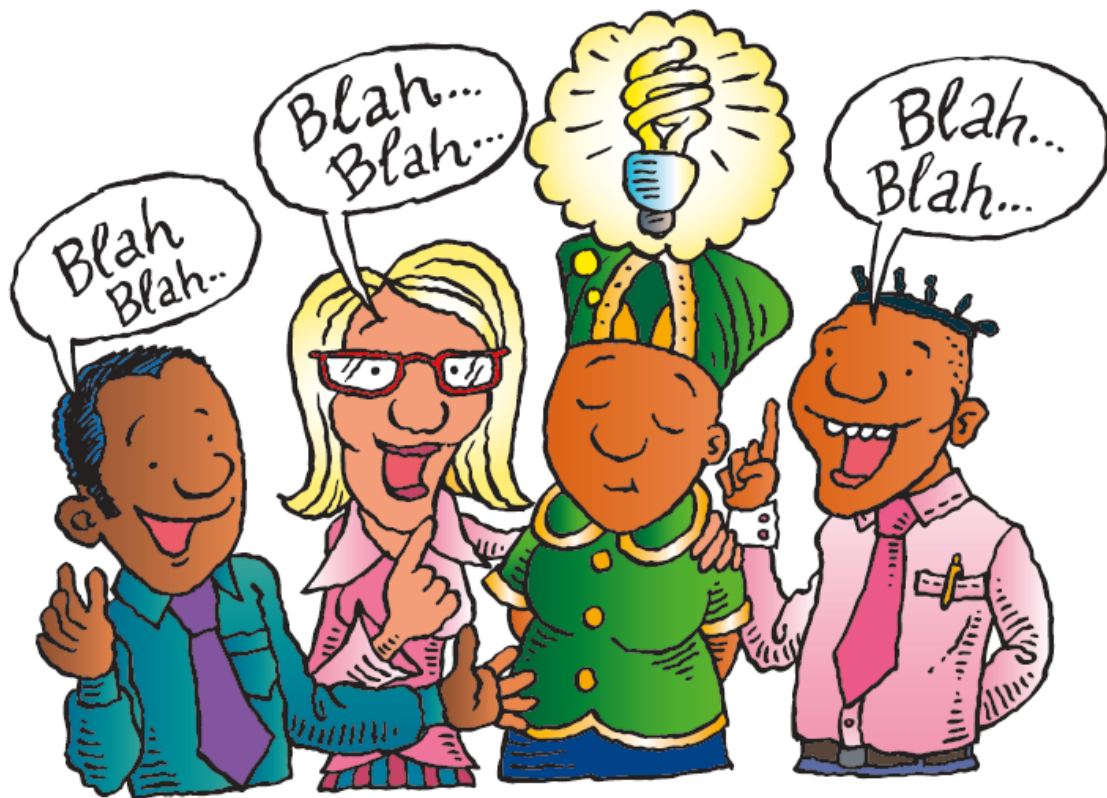
**E - Economic factors** What is happening in the economy? For example, economic growth or decline, unemployment, inflation.

**S - Social factors** What is happening socially? For example, cultural, health, population growth.

**T - Technological factors** How is technology affecting businesses? What new technologies exist?

**L - Legal factors** For example laws on importing and exporting, labour laws.

**E - Environmental factors** What is happening in the environment? For example, global warming and pollution.



Creative thinking can generate new ideas.

## End of topic questions

1. What is the Delphi technique? (4)
2. Give 3 advantages of using the Delphi technique and 2 disadvantages of using this technique. (10)
3. List the steps involved in the Delphi technique and explain each one briefly (14)
4. Define brainstorming and write down the 8 steps in this process. (10)
5. Give two reasons why creative thinking is important in business. (4)
6. List the factors that PESTLE stands for. (6)
7. How can you generate ideas? Explain some of the methods for doing this. (16)
8. Describe the difference between creative and routine thinking. (4)

## End of topic answers

1. It is a problem solving technique which uses anonymous interviews or involves a series of confidential questionnaires to solve a problem. (2)
- 2 Advantages of the Delphi technique
  - Arguments and disputes are minimised.
  - It encourages input from people who do their best work without needing to interact.
  - It minimises the influence of participants due to rank or status.
  - Free expression is promoted, without fear of being belittled.
  - The physical presence of participants is not required.
- Disadvantages of the Delphi technique.**
  - It can be time-consuming.
  - Bad ideas may be accepted because of a lack of group discussion.
  - There is no opportunity for participants to elaborate or add to someone else's idea. (10)
3. Step 1: Identify the problem  
Step 2: Ask group members to write possible solutions to a problem. Do this in the form of a questionnaire.  
Step 3: Combine the results and give each member a copy of the results  
Step 4: Experts submit new ideas.  
Step 5: Combine the new information and give it to the experts again.  
Steps 4 & 5 can be repeated until all members in the group agree. (14)
4. Brainstorming is a way of generating ideas through a group process. (2)  
Steps in brainstorming (8 x 1) (10)

Outline the brainstorming process to the group.

Outline the basic rules to be followed:

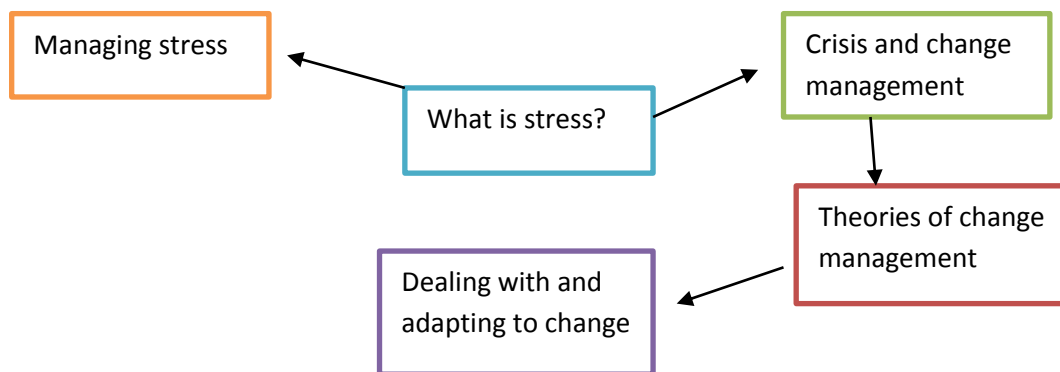
- \* Keep an open mind – don't criticise anyone.
- \* Let yourself go - don't discuss an idea yet.
- \* Generate as many ideas as possible.
- \* Build on the ideas of others.
- \* Write down all the ideas as they arise.

PRESENT THE PROBLEM TO THE GROUP	
APPOINT A RECORDER	
STATE THE PROBLEM IN CLEAR TERMS AND BEGIN	
SYNTHESISE SIMILAR IDEAS	
GROUP THE LISTED IDEAS INTO THREE GROUPS ( Impossible; Unlikely; Possible)	
PRIORITISE THE BEST IDEAS	
<p>5. Because managers and employees need to understand the ever-changing business environment where they operate. √√  In order to be in line with technological changes√√ and maintain a competitive edge√√ (2 x 2 = 4)</p> <p>6. Political factors  Economic factors  Social factors  Technological factors  Legal factors  Environmental factors (6)</p> <p>7. Delphi technique, Brainstorming, Force field analysis, Indigenous solutions plus descriptions (4 x 4 = 16)</p> <p>8. Routine thinking means doing the same thing and expecting different results. √√Creative thinking means using lateral thinking to solve problems through reasoning and find new solutions. √√ (4)</p>	

# Topic 2 Stress and crisis management

## Overview

This topic deals with stress, its effects in the workplace and how to manage stress



## 1. Concepts relating to stress, crisis and change management

Stress can cause physiological changes in the body:

- Increased heart rate
- Muscles that are tight and ready for work
- Quickened breathing
- Sharper mind and senses

Stress can be caused by **HOW** work is done, and by **WHERE** work is done.

Categories of stress:

How the work is done		Where the work is done	
Job content	<ul style="list-style-type: none"> <li>• Lack of variety</li> <li>• Unpleasant tasks</li> <li>• Dangerous tasks</li> <li>• Boring and meaningless tasks</li> </ul>	Career development, status and pay	<ul style="list-style-type: none"> <li>• Job security</li> <li>• Lack of promotion opportunities</li> <li>• Under-promotion and over-promotion</li> <li>• Work of low social value</li> <li>• Piece rate payment schemes</li> <li>• Unclear/unfair performance evaluation system</li> <li>• Being over-skilled or under-skilled for the job</li> </ul>
Workload and place	<ul style="list-style-type: none"> <li>• Having too much or too little to do</li> <li>• Working under time</li> </ul>	Role in the organisation	<ul style="list-style-type: none"> <li>• Unclear role in organogram</li> <li>• Conflicting roles</li> </ul>

	pressure		within the same job • Responsibility for people • Always dealing with other people and their problems
Working hours	<ul style="list-style-type: none"> <li>• Strict working schedules</li> <li>• Long hours working alone</li> <li>• Unpredictable working hours</li> <li>• Badly designed shift systems</li> </ul>	Interpersonal relationships	<ul style="list-style-type: none"> <li>• Weak and careless supervision</li> <li>• Bad relations with co-workers</li> <li>• Bullying (forcing someone to do something against their will), harassment and violence</li> <li>• Isolated or solitary (done alone) work</li> <li>• No process to deal with problems or complaints</li> </ul>
Participation and control	<ul style="list-style-type: none"> <li>• Lack of participation in decision making</li> <li>• Lack of control (for example, over work methods, work pace and working hours)</li> </ul>	Organisational culture	<ul style="list-style-type: none"> <li>• Poor communication</li> <li>• Poor leadership</li> <li>• Lack of clarity about the business' objectives</li> </ul>
		Home versus work	<ul style="list-style-type: none"> <li>• Demands of work and home that interfere</li> <li>• No support for home problems at work</li> <li>• No support for work problems at home</li> </ul>

## 1.1 Strategies to manage stress

### 1.2.1 Personal strategies

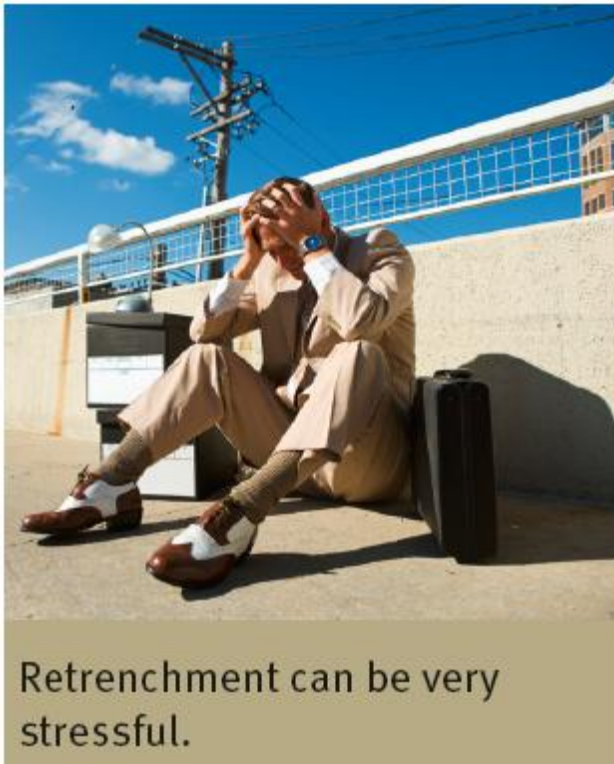
- Recognise the signs of stress and its causes.
- Create a balanced and organised lifestyle.
- Exercise regularly and keep fit.
- Eat a balanced diet.
- Get enough sleep and relaxation.
- Replace negative self-talk with positive thoughts.
- Stop worrying about things that are beyond your control.

### 1.2.2 Work based strategies

- Share the workload.
- Select and train workers properly.
- Consult workers about working practices.
- Offer flexitime.
- Increase worker support.
- Encourage cooperation and teamwork.
- Arrange stress management training.
- Improve equipment and working conditions.
- Improve managers' understanding knowledge and skills for dealing with work stress.
- Implement work and management systems.
- Develop a friendly and more supportive culture.

### 1.2.3 Ways in which stress impacts on businesses.

- Absenteeism
- Poor judgement
- Grievances and complaints
- Conflict and interpersonal problems
- Customer service problems
- Resistance to change



### 1. 2 Crisis and change management

Examples of crises that can occur:

- Tight deadlines
- Theft
- Ill health
- Power outages
- Vandalism

#### **Stages in a crisis**

**Stage 1** Before the crisis. Little advance warning.

**Stage 2** Warning. Clear indications that an event may happen and cause harm to the business.

**Stage 3** Crisis point. The crisis starts showing harmful effects on the business.

**Stage 4** Recovery. The business is able to focus on a return to normal operations.



**Stage 5** Post crisis. Assessing the damage caused by the event, start repairing what was damaged and considering a contingency plan to prevent or deal with a similar crisis in the future.

### 1.3 Change management

Change management involves:

- Identifying a crisis.
- Planning a response.
- Responding to a sudden event that poses a significant threat to the business.
- Limiting the damage.
- Selecting an individual or team to deal with the crisis.
- Resolving the crisis.

### 1.4. Theories of change management

#### ➤ **Business Process Re-engineering (BPR)**

Business processes need to be improved in order to deal effectively with change, even if individuals are motivated and prepared to work hard and deal with change.

A small change in processes can have dramatic effects on cash flow, service delivery and customer satisfaction.

#### ➤ **Total Quality Management (TQM)**

Management and employees of a business work together to improve processes, products, services and the culture that they work in.

If all the business processes are done right the first time, it will minimise defects and waste.

#### ➤ **Kaizen Model**

The Kaizen model is based on the following five elements:

- Quality groups meet to discuss levels of quality in their divisions.
- Strong morale among employees is an important. Managers must keep in constant contact with employee morale.
- Teamwork is necessary.
- Personal discipline of each employee ensures that a team stays strong.
- Suggestions for improvement from all employees.

#### ➤ **John Kotter's Change Model**

Eight steps that need to be taken in order to manage change successfully:

- Establish a sense of urgency among employees to deal with the change.
- Management and employees must work together.
- Create a clear vision for the business.
- Communicate and explain the vision to all employees.
- Make it possible for all employees to respond to the vision.
- Plan and create short-term goals and successes.
- Combine all improvements and produce even more change.
- Make new approaches part of the business's standard procedures.

## 2 Dealing with and adapting to change

### 2.1 Reasons for resisting change

- Loss of security
- Fear of economic loss
- Loss of power and control
- Reluctance to change old habits
- Awareness of weakness in the proposed change
- Peer pressure
- Timing and scope of change
- Misunderstanding

### 2.2 The 7 stages in adapting to change

1. Immobility, unable to do anything
2. Denial that there is a problem
3. Self-doubt or depression
4. Accepting reality and the need for change
5. Testing self and making changes
6. Seeking meaning and reasons for the change that has occurred
7. Internalising the changes that have been made

### 2.3 Change in the workplace

Changes in the workplace happen on a constant basis giving rise to stress and the need for change management.

#### 2.3.1 Unemployment

- Unemployment is a major social problem which has worsened since the global financial crisis of 2008
- South Africa has an estimated unemployment rate of 24.9%.
- South Africa's labour legislation requires employers and employees to contribute to the Unemployment Insurance Fund (UIF).
- Workers can receive financial assistance during periods of unemployment from the UIF.

#### 2.3.2 Retrenchment

Businesses sometimes need to downsize or reduce their capacity.

They may ask employees to apply for voluntary retrenchment. This includes a voluntary **severance package**.

The Labour Relations Act 66 of 1995 states that a business must make a minimum retrenchment payment to an employee based on the number of years worked for the business. People who are retrenched and who cannot find another job in the formal sector can adapt by trying to start their own business.

#### 2.3.3 Dismissal

An employee may be dismissed for the following reasons:

- Incapacity
- Misconduct
- Operational reasons

If employees feel that they have been unfairly dismissed, they can appeal to the Commission for Conciliation, Mediation and Arbitration (CCMA) for a fair hearing.

### 2.3.4 Affirmative action and Black Economic Empowerment (BEE)

The government has passed laws regarding affirmative action and black economic empowerment policies in order to change the lives of previously disadvantaged South Africans.

**The Employment Equity Act of 1998** aims to eliminate unfair discrimination, ensure employment equity and achieve a diverse workplace that is more representative of South Africa's population.

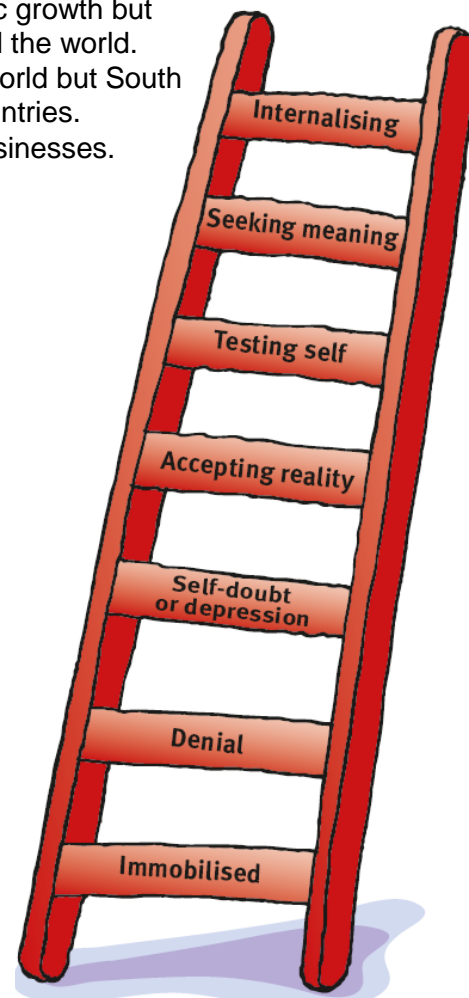
**The BEE Act 53 of 2003** aims to promote a more equal distribution of wealth, in a free-market environment, by actively supporting and favouring the economic empowerment of previously disadvantaged individuals. Businesses that comply with the BBE requirements are given preference when it comes to issuing government tenders, procurement contracts and licences (e.g. casino licences and cell phone licences).

#### **The Labour Relations Act (LRA)**

The LRA forbids unfair discrimination either directly or indirectly against an employee on the grounds of race, gender, sex, ethnic or social origin, sexual orientation, age, disability, religion, conscience, political opinion, culture, language, marital status or family responsibility.

### 2.3.5 Globalisation

- Globalisation means the movement between countries of people, goods, capital and ideas.
- Globalisation happens due to increased economic integration, improvement in technology and a reduction of trade barriers.
- Bigger markets can mean bigger profits and increased economic growth but businesses need to be more aware of what is happening around the world.
- Many South African businesses sell their products all over the world but South African business must also compete with imports from other countries.
- Competition from countries such as China is a threat to local businesses.



### End of topic questions

1. Define retrenchment (2)
2. What changes has affirmative action brought about? (4)
3. Name three theories of change (6)
4. List five elements of the Kaizen model. (10)
5. Explain three Laws which create change and affirmative action in the workplace. (12)
6. How do problems and crises differ? Give an example. (6)
7. Define affirmative action. (2)
8. Explain three reasons for dismissal. (6)

### End of topic answers

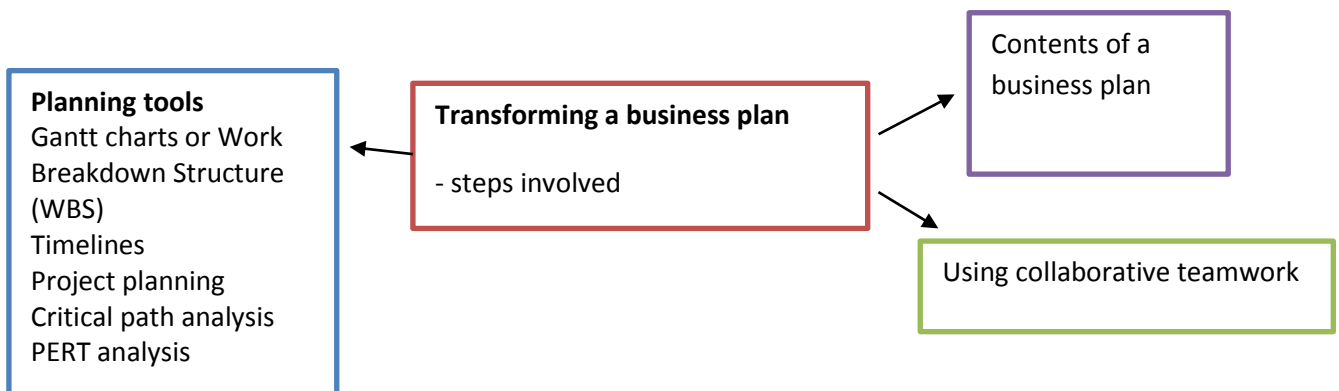
1. Retrenchment occurs when businesses need to downsize or reduce their capacity.√√ (2)
2. Equity in the workplace, √√laws to encourage black economic empowerment √√ (or list any of the Acts) (4)
3. Business Process Re-engineering, √√Total Quality Management, √√Kaizen Model, John Kotters' model. √√ (3 x 2 = 6)
4. Quality groups meet to discuss levels of quality in their divisions√√.  
Strong morale among employees is an important. √√  
Managers must keep in constant contact with employee morale. √√  
Teamwork is necessary. √√  
Personal discipline of each employee ensures that a team stays strong. √√  
Suggestions for improvement from all employees. √√ (5 x 2 = 10)
5. The Employment Equity Act of 1998, √√ The BEE Act 53 of 2003, √√ The Labour Relations Act (LRA) √√ (3 x 2 = 6)
6. A problem is a difficulty which may not need immediate intervention. √√ A crisis occurs when the problem has to be dealt with immediately. √√For example a slow-down in businesses is a problem but should business stop all together it becomes a crisis. √√ (6)
7. Affirmative action is a process, implemented with laws, to address past inequalities in the workplace. √√ (2)
8. incapacity, √√ Misconduct, √√ Operational reasons. √√ (3 x 2 = 6)

# Topic 3 Transformation of a business plan into action plan

## Overview

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Topic 3 identifies methods of putting a business plan into action.



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## 1 Transformation of a business plan into an action plan

### 1.1 The steps for transforming a business plan into an action plan

1. Define the scope of the project.
  - What is its purpose?
  - What are the first and last activities?
2. Develop a work breakdown structure.
3. Break the project down into smaller activities.
4. Set time frames, and work out how long every activity takes.
5. Set milestone targets.
6. Decide on accountabilities, who will be responsible for the decisions made.
7. Calculate the financial, human and technical resources you will need.
8. Plot the activity schedule onto a Gantt chart.
9. Implement the project plan.
10. Communicate and review progress.

### **1.1.1. A Work Breakdown Structure is used to:**

- divide a project into manageable areas
- develop a schedule for either a Gantt or critical path method chart
- allocate responsibilities to staff members.

### **1.2 Contents of a business plan**

A business plan should contain the following:

- cover page – includes business details and contact numbers of the owner(s)
- table of contents
- an executive summary
- description of the business, including form of ownership and description of product or service
- a production or operational plan
- management plan
- market analysis and marketing plan
- financial plan
- legal requirements
- SWOT analysis
- support documents, for example, copies of contracts, plans and diagrams.

### **1.2.2 Project planning and management**

Project management skills are needed to turn the business plan into an action plan. These include the use of knowledge, skills and tools to plan and implement activities to meet the goals for a specific project. A good project manager will:

- Identify the resources that will be needed, such as the people, budget and time.
- Allow time for consultations, approvals and getting financial assistance such as bank loans.
- Prepare a schedule identifying the main activities of each plan.
- Work backwards to prepare timeframes.
- Analyse each main activity by breaking it down into smaller activities.
- Decide who will make each activity happen and by when.
- Allocate a budget for each part of the action plan.
- Create a projected income statement from the business plan to provide financial information.
- Develop control methods to highlight problems.
- Identify risks and plan for unforeseen events.
- Check the plan regularly.

### **1.2.3 Action plan**

An action plan is needed to implement the business plan and show how activities will be organised to achieve the goals of the business plan

#### **Preparing an action plan:**

The action plan is based on a number of questions:

- What must happen?
- Who is responsible?
- When will activity start?

- When will activity end?
- Did the activity take place or what went wrong? (Record or Review)

### Advantages of an action plan

- It enables projects to be achieved within a specified time.
- It helps the person responsible for achieving certain goals to be more organised.
- It is a control measure against which standards and performance can be measured.
- It prioritises activities by their importance.

## 1.3 Planning tools

### 1.3.1 Timelines

A timeline is a line on which time and activities are marked. It is simple tool that lists all the activities that need to be done and the date order in which they will be completed.

### 1.3.2 Task analysis

Task analysis evaluates different tasks.

**Dependent tasks** are tasks that cannot begin until other tasks have been completed.

**Parallel tasks** are tasks that can be done at the same time as other tasks.

### 1.3.3 Gantt charts and Work Breakdown Structure (WBS)

Gantt charts are bar charts or graphs that show the duration of each task against the progression of time. They are tools often used by project managers in their planning to co-ordinate and track the different tasks in a project.

#### Advantages of Gantt charts

- They are easy to prepare.
- They are easy to read and understand.
- Events are shown in chronological order.
- The time needed for an activity is shown visually.
- Managers and team members can see which activities run at the same time (concurrently).
- Team members can see who is responsible for each activity.
- They show progress on an activity.
- Interrelated tasks can be seen at a glance.
- More information can be included by using colour coding and key symbols.
- If adjustments have to be made, it is easy to see the effect on the other activities



### **1.3.4 Critical path analysis (CPA)**

Especially useful for large projects, CPA calculates the maximum time for each task to be completed, and identifies tasks that can be delayed.

### **1.3.5 PERT analysis**

PERT stand for "programme evaluation and review technique" which was developed in the late 1950s. A PERT network is a diagram that looks like a flow chart. It shows the order of activities needed to complete a project and the time or costs of each activity. When using a PERT network, a project manager must think about what has to be done, determine which events depend on one another and identify potential trouble spots. To construct a PERT network, you need to know three terms: events, activities and critical path.

- Events are end points indicating that major activities are completed.
- Activities are the actions that take place.
- The critical path is the longest or most time-consuming order of events and activities that is needed to complete the project in the shortest amount of time



## 4 Collaborative Teamwork

When working in collaboration with partners to create action plans, teams need to ask the following questions:

- What are the main goals and mission statement of our project?
- How much time do we have to work together?
- What information, resources and power do we need to implement our project's goals and mission?
- What are the possible barriers to meeting our project's goals?
- Are there alternative courses of action?

Once major goals are identified, teams can break up into small groups.

### End of topic questions

1. Define a work breakdown structure (WBS). (6)
2. Define a Gantt chart. (6)
3. Define the critical path method (CPM). (6)
4. Define the programme evaluation and review technique (PERT). (6)
5. Explain the role of action plans in a business plan. (10)
6. List five tasks of good manager (10)

### End of topic answers

1. A work breakdown structure divides work into manageable sections, ✓✓ allocates responsibilities to staff ✓✓ and allows for an action plan such as GATT to be implemented. ✓✓ (6)
2. Gantt charts are bar charts or graphs ✓✓ that show the duration of each task against the progression of time. ✓✓ They are tools often used by project managers in their planning to co-ordinate and track the different tasks in a project. ✓✓ (6)
3. CPA calculates the maximum time for each task to be completed, ✓✓ and identifies tasks that can be delayed. ✓✓ It is useful for large projects. ✓✓ (6)
4. A PERT network is a diagram that looks like a flow chart. ✓✓ It shows the order of activities needed to complete a project ✓✓ and the time or costs of each activity. ✓✓ (6)
5. An action plan is needed to implement the business plan ✓✓ and show how activities will be organised ✓✓ to achieve the goals of the business plan ✓✓ (6)
6. Identify the resources that will be needed, such as the people, budget and time. ✓✓  
Allow time for consultations, approvals and getting financial assistance such as bank loans. ✓✓  
Prepare a schedule identifying the main activities of each plan. ✓✓  
Work backwards to prepare timeframes. ✓✓  
Analyse each main activity by breaking it down into smaller activities. ✓✓  
Decide who will make each activity happen and by when. ✓✓  
Allocate a budget for each part of the action plan. ✓✓

Create a projected income statement from the business plan to provide financial information. √√  
Develop control methods to highlight problems. √√  
Identify risks and plan for unforeseen events. √√  
Check the plan regularly. √√

(5 x 2 = 10)



# Topic 4 Setting up / starting a business

## Overview

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Topic 4 discusses ways of starting a business and looks at the issue of funding.



## 1 Using an action plan

Many business ventures fail within the first five years because of a lack of proper planning. Action plans need to be created. An action plan is a plan with identifiable goals and targets to achieve a specific outcome.

### 1.1 Environmental scanning:

Looking for information on trends in the market and the external environment:

- Information on the viability of the product or service including competitors, size of the market, suppliers, employees and financial institutions.
- The external environment including the political, economic, social and technological environments.

### 1.2 Setting business goals using the SMARTER goals approach

**S** - specific - a goal must be able to be defined.

**M** - measurable - The goal should be quantifiable.

**A**-achievable- the business should have the ability to reach the goal.

**R**- realistic- it must be possible to do.

**T** -time bound- the goal needs to be achieved within a realistic timeframe.

**E**- ethical- the goal should be achieved in an ethical manner.

**R**- recordable- the goal must be recorded, so that it can be reviewed.

## **2 Turning a business plan into an action plan**

### **2.1 Management strategy**

- How will the business be organised?
- How will the business be managed and operated?
- What business experience and qualifications does the entrepreneur have or need?
- What pre-operating activities must happen before the business can operate?
- What pre-operating expenses can be expected?
- What fixed assets will be needed for the business?
- What administrative costs will be incurred?

### **2.2 Marketing strategy**

- What is the product?
- How does it compare in quality and price with competitors' products?
- Where is the business located?
- Within the market area, to whom will the business sell its products?
- Is it possible to estimate how much of the product is currently being sold?
- What share of this market can be captured by the business?
- What is the selling price of the product?
- How much of the product can be sold?
- What promotional measures will be taken to sell the product?
- What marketing strategy is needed to ensure sales forecasts are achieved?
- How much money do you need to promote and distribute the product?

### **2.3 Financial strategy**

- What is the total capital requirement?
- Is a loan needed?
- What security (collateral) can be given to the bank?
- What do the projected income statement, cash flow statement and balance sheet show?
- What is the loan repayment schedule?
- What is the break-even point the point where the level of income from sales is equal to the total operational costs of the business?
- What is the return on investment the money earned from investing in the business?

### **2.4 Production strategy**

- What is the production process?
- What buildings and machinery are needed, and what do they cost?
- What is the useful life of the buildings and machinery?
- How will maintenance be done, and are spare parts easily available?
- When and where can machinery be obtained?
- How much capacity will be used?
- How will the factory be arranged?
- How will the raw materials be acquired? How much will they cost?
- How much labour is needed? What skills should they have?
- What will the cost of labour be?
- How will workers be motivated?
- What are the expenses to run the factory?
- What is the production cost per unit?

### 3 Acquiring funding

#### 3.1 Equity capital (own funds)

- Owners of a business can supply their own funds, that can be from their savings or **profits** that their business generates.
- The type of ownership that the business chooses will determine the source of funding. For example, sole traders, partners or close corporations supply their own capital. Shareholders supply funds for companies.
- The advantage of using own funds is that no interest is paid on that money.

#### 3.2 Borrowed capital (funds)

- Borrowed capital is money that the business borrows from individuals or financial institutions such as banks. Banks will only lend money to a business that they believe will be well-managed and is likely to make a profit.
- The disadvantage of borrowed money is that the debt that has to be repaid with interest.

#### 3.3 Comparison of the characteristics of own capital versus borrowed capital

Own Capital	Borrowed Capital
<ul style="list-style-type: none"><li>• It is of a permanent nature.</li><li>• It is seldom withdrawn.</li><li>• It receives remuneration in the form of dividends and grows in value.</li><li>• Managers (owners) have control over it.</li><li>• When the business is terminated own capital is the last to be paid out to the owner(s).</li></ul>	<ul style="list-style-type: none"><li>• It may be short term, medium term or long term.</li><li>• It can be withdrawn quite frequently.</li><li>• Interest is paid on borrowed capital.</li><li>• Borrowed capital has little or no control over the management of the business.</li><li>• Borrowed capital has preferential claim, that is, it must be repaid first, before the owners' capital.</li></ul>

## 4 Sources of funding

### 4.1 Equity capital

Equity financing is money acquired by the small business owner her- or himself or from other investors (such as family and friends).

Advantage: allows the owner to be free to make her or his own decisions.

Disadvantage: if the ownership is shared it reduces ownership interests and control, as the investors gain a say in business decisions.

### 4.2 Loans

- Loans are money borrowed from financial institutions.
- It must be paid back over a specified time period.
- Short term loans are usually for one year or less.
- Long-term loans are taken for more than a year.
- The interest rate on loans can be fixed interest or compound interest.
- Mortgage loans, also called mortgage bonds, are loans used to finance the purchase of fixed assets such as property. They have a specified payment period and interest rate.
- Banks also offer short-term loans in the form of a bank overdraft.

### 4.3 Debt

**Installment sale agreements** -used when a business buys expensive items and does not have enough cash to do so. The supplier allows the business to pay a deposit. The balance owing plus interest is paid over an agreed period as installments. If the business does not pay, the supplier can repossess the items. The business becomes the owner of the items when the last installment has been paid.

**Lease** - an agreement where the business (the lessee) rents an item such as a photocopy machine instead of buying it. The business pays a monthly installment (to the lessor) for the use of the item. The item is usually returned to the lessor at the end of the period.

**Debentures** -A company borrows money from the public. Debenture holders receive a fixed interest rate on their money for a fixed period of time. The company must repay the amount of money borrowed at the end of the agreed period.

**Trade Credit** - suppliers may give a business trade credit. The business will be allowed to buy goods and services and pay for them at a later date.

### 4.4 Other sources of funding/capital

- Friends and family may assist a business owner with funds. The repayment agreements may be flexible and interest rates very low or none at all.
- Venture capital companies/venture capitalists may offer funding to a new business. A venture capitalist usually has a say in the business decisions. For the venture capitalist it is a high risk investment with potentially high returns. The amount of return they expect will be related to the risk.

- Government grants – The Department of Trade and Industry in South Africa gives cash incentives to new and existing qualifying businesses in South Africa.

### End of topic questions

1. Define an action plan. (5)
- 2 Name four strategies that must be included in an action plan. (8)
- 3 What will be included in the marketing strategy of an action plan? (22)
- 4 List four types of borrowed capital. (8)
5. Name four types of debt that can be used to give finance. (8)
6. What government assistance is available for new businesses? (2)

### End of topic answers

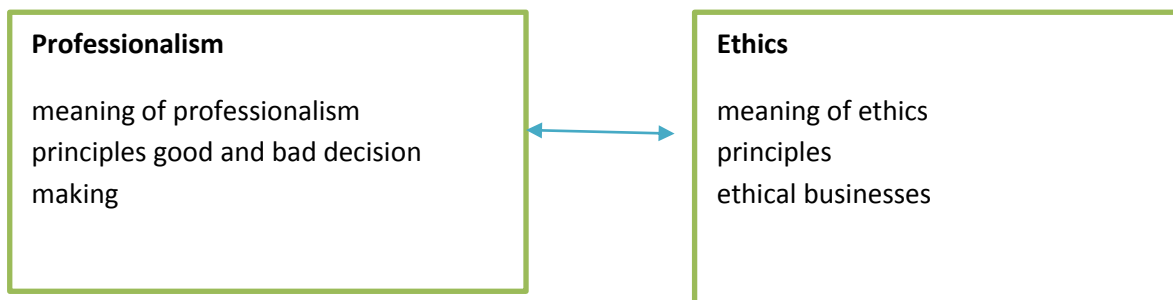
1. An action plan is a plan√ with identifiable goals and targets√√ to achieve a specific outcome.√√ (5)
2. Marketing, management, √√ production√√ and financial √√ (8)
3. What is the product? √√ How does it compare in quality and price with competitors' products? √√Where is the business located? √√ Within the market area, to whom will the business sell its products? √√ Is it possible to estimate how much of the product is currently being sold? √√What share of this market can be captured by the business? √√ What is the selling price of the product? √√How much of the product can be sold? √√What promotional measures will be taken to sell the product? √√ What marketing strategy is needed to ensure sales forecasts are achieved? √√How much money do you need to promote and distribute the product? √√ (22)
4. bank loans, √√bank overdraft, √√debentures, √√mortgage bonds√√ (8)
5. Credit card, √√ overdraft facility, √√ lease agreements, √ √trade credit, √ √ installment agreements √ √ (4 x 2 = 8)
6. The Department of Trade and Industry in South Africa gives cash incentives to new and existing qualifying businesses in South Africa. √√ (2)

# Topic 5 Professionalism and ethics

## Overview

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Topic 5 deals with theories and principles of professionalism and ethics and explores how they relate to the business environment.



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## 1 Applying principles and skills

The move towards more responsible business practices is called business ethics, corporate ethics or corporate social and environmental responsibility. Professionalism in the workplace means the way business managers and employees conduct themselves. It includes ethical conduct, appearance, communication, attitude, responsibility, knowledge, skill, integrity, respect, etiquette and loyalty.

- **Professionalism** involves taking your job seriously, valuing and respecting your colleagues and clients and being an ambassador for your company.
- **Ethics** means a moral code based on set values. A Code of Ethics describes the appropriate behaviour that is expected from employees in the workplace.

### 1.1 Ethical theories

Ethical theories can be grouped into those that guide conduct and those that guide character.

#### Ethical theories that guide conduct

- Utilitarian theory – consequence based
- Deontological theory – duty based

#### Ethical theories that guide character

- Virtue-based theory
- Care theory



## 1.2 Principles of ethics and how they related to the business environment

- Be trustworthy
- Meet obligations
- Community involvement
- Accounting control

## 1.3 Principles of professionalism and how they relate to the business environment

- **Focus** – The focus needs to be on the job at hand rather than the lives of the people involved in that job.
- **Relationships** – Professionalism establishes boundaries for appropriate relationships in the workplace.
- **Respect** – People who practice professionalism practice respect.
- **Chain of command** – To be professional, the chain of command for the correct handling of problems needs to be followed.
- **Presentation** – Presenting a professional image to customers increases the customer base.
- **Knowledge and skill** – It is important to have the appropriate qualifications and skills for the applicable job or profession.

## 1.4 Differentiating good and bad decisions

- How will this decision affect the greatest number of people?
- What will the consequence of the decision be?
- How will the public feel about the decision?
- Does the decision portray what is upheld in the Code of Ethics of the business?
- Is the decision made within the boundaries of the law?

## 1.5 Principles and skills of professional, responsible ethical and effective business practice

### 1.5.1 Moral absolutism versus moral relativism

**Moral absolutism** means a set of moral truths that applies to all people in all situations anywhere in the world.

**Moral relativism** means that different moral truths apply for different people.

According to moral absolutism, child labour is always wrong. Moral relativism looks at the individual situation, the child may be the only breadwinner in the family because both parents are dead. In third world countries these children have no other means of income so these orphaned children need to work to be able to buy food. Child labour is illegal in South Africa.



## 2 Ethical business ventures

Ethical issues relate to the internal stakeholders of the workplace, the employers and employees.

- Theft, corruption, fraud, nepotism, unfair dismissals, harassment, racism, mismanagement of funds, discrimination and firing an employee for whistle-blowing.

Ethical issues related to external stakeholders in the corporate world

- Advertising, personal selling, suppliers, contracts and pricing.

A business cannot be regarded as ethical if it ignores unethical practices by its suppliers. The following business practices are regarded as unethical:

- Use of child labour and forced labour
- Production in sweatshops where people work 12 to 13 hours per day, 7 days per week at a wage below the minimum wage level violation of the basic rights of workers
- Ignoring health, safety and environmental standards.

### End of topic questions

1. Write a paragraph describing what ethics are, and giving examples. (8)
- 2 Give two examples of ethical business practices. (2)
- 3 Describe what is meant by perspectives on ethics. (3)
- 4 Name five principles of good business ethics and professionalism that you think you would apply in a business that develops housing. (10)
- 5 Define professionalism. (2)
- 6 What is the main aim of most businesses, and how does this cause problems for business ethics? (4)
- 7 Why are business ethics becoming more important to businesses today? (4)

### End of topic answers

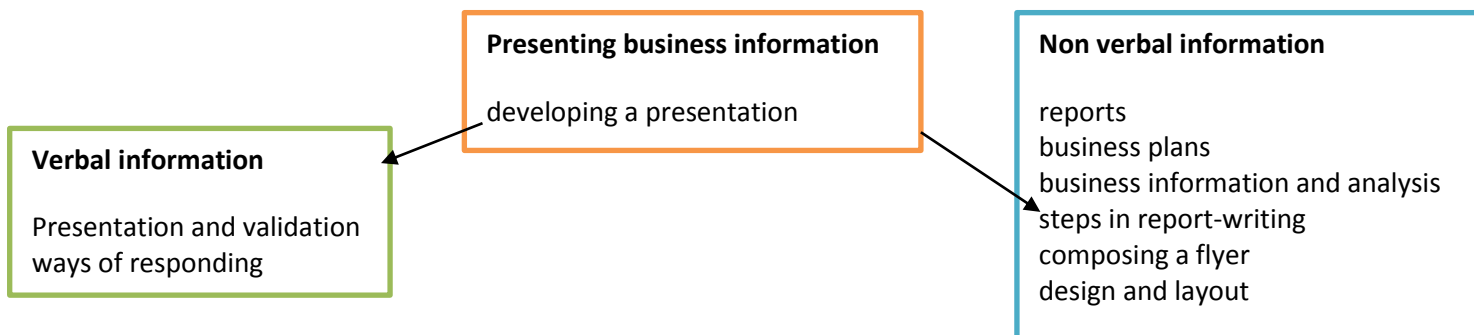
1. Ethics means a moral code based on set values. ✓✓ A Code of Ethics describes the appropriate behaviour that is expected from employees in the workplace. ✓✓ An example would be being honest and not stealing company stationary. ✓✓ Unethical behaviour would be being dishonest in a business dealing. ✓✓ (8)
2. Charging a fair price, giving a portion of profits to charity, assisting employees who have personal problems - any similar - ✓✓ (2)
3. Different people have different value systems and therefore different opinions of what constitutes ethical behaviour and what does not. (3)
4. Ethics: charging a fair price, paying workers fair wages, making sure good quality materials are used, making sure all safety regulations are complied with, doing a good job. Professionalism: finishing the project at the right time, being courteous, completing the contract as stated. ✓✓ ✓✓ ✓✓ ✓✓ ✓✓ (10)
5. Professionalism involves taking your job seriously, valuing and respecting your colleagues and clients and being an ambassador for your company. ✓✓ (2)
6. To make a profit. ✓✓ This causes a problem because it is easy to cheat to make more money or take a shortcut to make more money. ✓✓ (4)
7. Because the public is aware that many businesses make vast profits and that many behave unethically. ✓✓ People can chose to boycott firms that they believe behave unethically. ✓✓ (4)

# Topic 6 Presentation of business information

## Overview

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Topic 6 deals with the accurate and concise verbal and non-verbal presentation of a variety of business-related information (including graphs) and how to respond professionally to questions and feedback.



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## 1 Presentation and support (validation) of business information

Presentation is how you present information, and **validation** is how you support the information you present.

Presentations are made either **verbally** in front of a group of people, or **nonverbally**

### 1.1 Verbal format

When you present business information in verbal format, you use words.

### 1.2 Non-verbal format

When you present business information in non-verbal format, you use pictures, graphs and tables.

### 1.3 Developing a business presentation

Questions to ask before creating the presentation:

- What is the purpose of the information?
- What information is important and what must be covered in the presentation?
- Who is the audience?
- How long should the presentation last?
- What resources are needed for the presentation? There is a difference between verbal and non-verbal presentations.
- What are the possible questions that the audience can ask?
- What are the things that can go wrong during the presentation?

## 1.4 Steps in creating a presentations

**1. Gather and organise information** Give your presentation structure with four basic parts: an introduction, body, summary and conclusion:

- **Introduction** – Often presenters give a very brief summary of the points that will be covered in the rest of the presentation.
- **Body** –In a long presentation use sub-sections, with each sub-section dealing with one issue or point.
- **Summary** –After the summary section the presenter should allow time for questions and answers.
- **Conclusion** – Summarise any points raised during the question and answer session. Any hand-out material that was not required during the presentation can be handed out.



A presentation is an oral presentation.

## 2 Visual Aids

The main forms of visual support used with presentations are:

- Various kinds of charts and graphs
- Illustrations (drawings) and photographs
- Flowcharts and other diagrams
- Maps and plans.

### 2.1 Guidelines for the effective use of visual aids.

- Evaluate the audience. Think of the listener or reader, the content, the
- Use restraint. Do not overuse colour or decorations
- Be accurate and ethical.
- Be sure to name sources when you use someone else's facts.
- Introduce a visual aid meaningfully.
- Do not assume the listener or reader will automatically draw the same conclusions you reached from a set of data.

### 2.2 Posters and handouts

Posters and handouts are used to convey business information. Posters help to advertise an event such as a music performance or outdoor show. Handouts present concise information about a product or service, such as a garden service or special offer at a supermarket.

## 3 Written information

### 3.1 Business reports

- Business reports can range from informal half-page reports to formal 100 plus page financial forecasts.
- Written reports may be presented orally to an individual or to a group, or electronically on a computer screen.
- Reports can be delivered and presented electronically as portable digital format (pdf) documents or as electronic presentations, using software programmes like PowerPoint.
- Written information is impersonal because people cannot see or hear each other and cannot provide immediate feedback.
- Most forms of business communication include email, announcements, memos, faxes, letters, newsletters, reports, proposals, manuals, presentations, and reviews.

#### 3.1.1 Advantages of written forms of communication:

- Can be composed and read when the schedules of writers and readers permit.
- Messages, letters and reports can be put in draft format and reviewed before sending.
- Provides a permanent record.
- Writing out allows the presenter to develop an organised, well-considered message.

#### 3.1.2 Disadvantages of written forms of communication:

- Require careful preparation.
- Words committed to paper, or in electronic form, become a public record.
- They are more difficult to prepare and demand good writing skills.

### 3.2 Different kinds of reports

#### 3.2.1 Informational reports

Reports that present data without analysis or recommendations and their primary function is to provide information.

#### 3.2.2 Analytical reports

Analytical reports are reports that provide data and conclusions, and are analytical because the presenter also supplies recommendations.

### 3.3 Preparation of a report

The main sources of such business information are:

- **The news** – reports in newspapers and business-orientated publications
- **Market research** – reports generated internally or purchased from professional market research businesses
- **Credit and financial information** – for instance on the credit worthiness of customers, suppliers and competitors; or the share prices on the JSE
- **Company and executive profiles** – published in annual reports of public companies listed on the JSE
- **Industry, country and economic analyses** – assist the business to identify challenges, trends and opportunities.

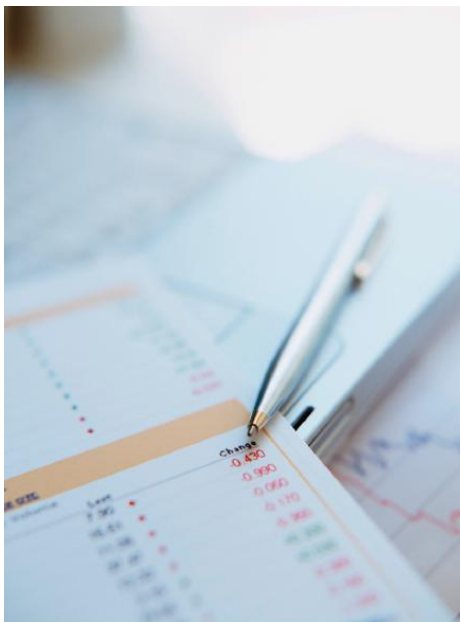
### 3.4 The format of a report

- **Letter format** – Prepared on office stationery with a letterhead, a letter report contains a date, inside address, greeting, and complimentary close.
- **Memo format** – For short informal reports that stay within organisations, the memo format is suitable.
- **Manuscript format** – Writers will use this format for longer and more formal reports.
- **Printed forms** –Used for repetitive data collection and presentation, such as monthly sales reports, staff performance appraisals, trading stock inventories, and personnel and financial reports.
- **Electronic format** – Computers allow writers to produce and distribute reports in electronic form, not in hard copy.

#### 3.4.1 Components of formal reports

The following components are usually present in formal reports:

- Title page
- Table of contents
- List of figures
- Executive summary
- Body
- Conclusion
- Recommendations
- Appendix
- References



A collection of various business reports



## 4 Business information and analysis

### 4.1 Steps in report-writing

- **Step 1 Analyse** the problem. Prepare a written problem statement to clarify the task.
- **Step 2 Anticipate** the audience and issues. Keep in mind that because the report is in writing it may be distributed to people in the organisation for whom it was never intended.
- **Step 3 Prepare** a work plan. Start early and allow enough time for brainstorming and preliminary research.
- **Step 4 Do** the research in order to gather data. Do not depend only on the Internet.
- **Step 5 Organise**, analyse, interpret, and illustrate the data. Consider the purpose of the different visual aids.
- **Step 6 Put** together the first draft of the report. Print the first draft and only read it 24 hours later.
- **Step 7 Revise**, proofread, and evaluate. Ask a fellow colleague to read the report.

### 4.2 Composing a flyer

Flyers and brochures are popular ways of advertising services and products.

#### 4.2.1 Guidelines for composing a flyer:

- Write a title that will attract the casual reader's attention.
- Use graphics to attract attention.
- Focus on the benefits of the product or service.
- Refer to happy customers.
- Use text boxes if space allows.
- Do not get too complicated.
- Let someone proofread the contents.
- Use bright paper and black text if budget does not allow for colour printing.
- Offer a discount on the service or product.

## 5. Responding to questions in a non-aggressive and professional manner

### 1. Listen

The presenter should listen to all parts of the question. Writing down the questions will also assist you to remember all the parts that need response.

### 2 Understand

If the question is not clear, the presenter should ask the person asking the question to clarify. Repeating the question to the person often helps.

### 3 Make notes and answer all questions

If a member of the audience asks two or three questions, make notes of the questions while the person is talking. Then make sure that you answer all the questions.

### 4 Communicate and involve

Be positive and enthusiastic when responding. Keep answers brief and focused. The presenter should also not allow a two way discussion to develop with the person asking the question. To prevent this, repeat the question to the whole audience before attempting to answer it.

### 5 Apologise for errors

If a member of the audience correctly points out that you have made a mistake then acknowledge your mistake and apologise.

### 6 Respond

Make eye contact with the whole audience while answering a question. But, afterwards, check with the person who asked the question whether the answer was sufficient.

### 7 Invite follow-up questions

If you run out of time you can invite the audience to continue discussing the issue via email or even via telephone.

### 5.1 What to avoid during question and answer sessions

- Avoid having a standard response ready to answer most questions.
- Do not make a second presentation when answering a question.
- Do not argue and try to prove that you are right or know best.
- Do not get aggressive or defensive.
- Take time to think before answering a difficult question.
- Be prepared to admit that you do not have the answer to a question.
- Do argue with someone who does not agree with you.

### End of topic questions

1. List three sources of business information. (6)
- 2 What is the difference between verbal and non-verbal formats of presenting business information? (4)
- 3 Why are the design and layout of a business presentation important? (2)
- 4 A pie chart is an example of which type of business presentation format? (2)
5. What is the difference between informational and analytical reports? (4)
- 6 In a business report, what is a recommendation? (2)
- 7 What is the difference between a handout and a poster? (2)
8. Discuss briefly the advantages and disadvantages of written forms of communication. (14)

## End of topic answers

1. The news ✓✓ Market research ✓✓ Credit and financial information ✓✓ Company and executive profiles Industry, ✓✓ country and economic analyses ✓✓ (6)
2. Verbal format uses words, ✓✓ non verbal uses written information such as reports or graphs. ✓✓ (4)
3. Because it affects the visual presentation and impression it makes. ✓✓ (2)
4. Non verbal or written information. (2)
5. Informational reports present data without analysis or recommendations and their primary function is to provide information. ✓✓ Analytical reports are reports that provide data and conclusions, and are analytical because the presenter also supplies recommendations. ✓✓ (4)
6. An opinion based on conclusions drawn from the existing facts and data. ✓✓ (2)
7. Posters help to advertise an event such as a music performance or outdoor show. Handouts present concise information about a product or service, such as a garden service or special offer at a supermarket. ✓✓ (2)
8. **Advantages of written forms of communication:** Can be composed and read when the schedules of writers and readers permit. ✓✓ Messages, letters and reports can be put in draft format and reviewed before sending. ✓✓ Provides a permanent record. ✓✓ Writing out allows the presenter to develop an organised, well-considered message. ✓✓
- Disadvantages of written forms of communication:** Require careful preparation. ✓✓ Words committed to paper, or in electronic form, become a public record. ✓✓ They are more difficult to prepare and demand good writing skills. ✓✓ (14)

**BUSINESS STUDIES GRADE 11  
MID YEAR EXAMINATION**

**TIME: 3 HOUR MARKS: 300**

**Instructions and Information**

Read the following instructions carefully before answering the questions:

This test paper consists of THREE sections, SECTION A, SECTION B and SECTION C.

SECTION A: Compulsory for all learners

SECTION B: Answer any THREE of the five questions that cover all the work done during this year (in paragraph style).

SECTION C: Answer any TWO of the four questions that cover all the work done during this year (in paragraph style).

Consider the time allocation when answering the questions (you may use the table below as a guideline for marks and time allocation for each question).

Read the instructions for each question carefully and answer only what is required.

Number your answers correctly according to the numbering system used in this question paper.

Except where other instructions are given, answers must be written in full sentences.

The mark allocation and the nature of the question should determine the length of your answers.

Start the answer to each new question on a new page in your answer book.

Section A (40)

Section B 180 (3 x 60)

Section C 80 (2 x 40)

## SECTION A: ANSWER ALL PARTS OF THE QUESTION

### QUESTION 1

1.1.1 This is classified under the primary sector

- A. Forestry
- B. Financing
- C. Manufacturing
- D. Transport

1.1.2 A diagram which shows deadlines in order of date.

- A. Timeline
- B. Gantt charts
- C. Action plan
- D. Business plan

1.1.3 Activities across national borders are part of the .....environment.

- A. Economic
- B. Social
- C. Institutional
- D. International

1.1.4 Which of the following is NOT a characteristic of borrowed capital:

- A. It is of a temporary nature.
- B. It is often withdrawn.
- C. It receives remuneration in the form of dividends and grows in value.
- D. It has a preferential claim in the case of insolvency

1.1.5 In a business, cash flow would not be assisted by

- A. Lease agreements
- B. Trade credit
- C. Own capital
- D. Instalment sale agreements

1.1.6 An employee may not be dismissed for

- A. HIV/AIDS status
- B. Incapacity
- C. Misconduct
- D. Operational reasons

1.1.7 Which does not apply: Gantt charts are

- A. Bar charts or graphs that show the duration of each task against the progression of time
- B. Used to control macroeconomic variables
- C. Tools used by project managers in their planning
- D. Used to co-ordinate and track the different tasks in a project

1.1.8 A plan which aims to put in place a future vision of a company.

- A Timeline
- B Gantt charts
- C Action plan
- D Business plan

1.1.9 When the owner invests her or his own funds a business this is known as

- A Debt financing
- B Asset financing
- C Equity financing
- D Factoring

1.1.10 Which of the following is not a requirement of the King III Code of Governance of 2009?

- A Financially responsible
- B Socially responsible
- C Environmentally responsible
- D Economically responsible

(10 x 2 = 20)

1.2. Answer only true or false to each question.

1.2.1 Brainstorming is used to generate ideas through a group process.

1.2.2. The business can exert internal control over its micro environment.

1.2.3. Suppliers form part of the market environment of the business and therefore can always be controlled.

1.2.4 It is always better for a business to make sure it has a negative public image.

1.2.5 Presentations are always made verbally.

(5 x 2 = 10)

1.3 Match the correct phrases


(5 x 2 = 10)

Column A	Column B
1. The Act that is concerned with social justice, labour peace and equity in the workplace.	A Exporting
2. When a business uses external providers to manage or maintain certain functions or tasks.	B. Work Breakdown Structure
3. This chart shows how the critical work elements, called tasks, of a project are related to one another and to the project as a whole.	C. Dumping
4. When a manufacturer in one country exports goods to another country at a price that is much lower than the price it charges in its home market.	D. Basic Conditions of Employment Act
5. When a firm pays for the use of equipment but does not get to own it.	E. Labour Relations Act
	F. Leasing
	G. Gantt chart
	H. Outsourcing

## SECTION B: ANSWER ANY THREE QUESTIONS.

### QUESTION 2

- 2.1 Tabulate FOUR differences between a private and a public company. (4 x 2=8)
- 2.2 Read the case study and answer the questions that follow:



Equity and retrenchment.

During the early 1990's Telkom faced the challenge of reducing the number of employees from 70 000 to about 29 000. It had to be cautious not to lose important members of staff, which could have led to operational chaos. Its second challenge was to have a strategic recruitment plan in place that targeted black people.

More than 30 000 staff members left Telkom, of which most were skilled staff. From 1998 to 2004, 80% of new entrants each year were black.

According to the company equity policy, it had to fast-track female employees and towards the end of 2004 26, 7% of the total workforce was female. Telkom also had to make sure that equity and black representation was spread across the entire company, from the board of directors and top management down to middle and operational level.

- 2.2.1 Identify from the case study TWO forms of empowerment. (2x2=4)
- 2.2.2 Name TWO challenges Telkom had to face. (2x2=4)
- 2.2.3 What was the consequence of the strategy Telkom implemented to meet the requirements of the Act. (1x2=2)
- 2.3. Managers today are confronted by issues such as social responsibility, social awareness of ethics and human rights.
- 2.3.1 What do you understand by Social Responsibility?  
(2)
- 2.3.2 Name any TWO programs of how businesses can be socially responsible towards their communities in which it operates.  
(2x2=4)
- 2.4 Briefly explain the interaction of the THREE business sectors. (3x3=9)

2.5 Study the advert below and answer the questions that follow:

**STARBRIGHT COFFEE**

Coffee with a taste of Italy

Franchise opportunities available in urban areas countrywide

We offer:

Fully equipped stores

Assistance with the application for finance

Comprehensive training

Your investment:

Capital contribution of R500 000

TEL:011

5367523



2.5.1 Discuss the type of business under the following headings:

Definition of the type of business

(5)

Name of the two parties concerned.

(2x2=4)

The agreement

(4)

2.5.2 Distinguish between Leasing and Outsourcing.

(2x2=4)

2.6 Identify the form of ownership in each of the following:

2.6.1 Name ends in (Pty) Ltd

2.6.2 Number of members is 1-10

2.6.3 As with the Sole trader the liability is unlimited.

2.6.4 The main establishment documentation is the Memorandum, Articles and Prospectus.

2.6.5 As with the Partnership it has no continuity.

(5x2=10) [60]

### QUESTION 3

#### CASE STUDY – KARINA'S BAKERY

Read the given passage and answer the questions that follow:

Karina would like to develop her hobby of bread making into a small business. There are some suitable small premises up for sale for R350 000. She will need to spend about R20 000 to refurbish and convert these premises to a bakery.

She has been offered a second-hand stove, industrial mixer and other necessary equipment for a further R80 000.

Flour, oil and other ingredients will cost about R3 000 on a monthly basis. She has estimated that electricity will be R750 a month and rates will be R12 000 per annum. She has decided to place an advertisement in the local newspaper and on the radio which will cost her R600 per week. She has managed to save R100 000 which she can invest in her business.



- 3.1 How much money will Karina need to set up and run her business for the first month? (14)
- 3.2 How much capital can she contribute to the business herself? (2)
- 3.3 How could she raise the remainder of the capital required? (10)
- 3.4 Karina does not want to share ownership of her business and does not want to spend a lot of money setting it up. What two forms of ownership can she choose from? (4)
- 3.5 Use a table to compare five differences in these two forms of ownership. (10)
- 3.6 What sector of the economy will Karina's business fall under? (2)
- 3.7 Explain, using a simple business column, how the three sectors of the economy are interlinked for Karina's products. (18) [60]

#### QUESTION 4

- 4.1 Discuss any FIVE sources of stress in the workplace. (5 × 3 = 15)
- 4.2 Discuss any FIVE actions managers can take to alleviate and manage stress of workers. (5 × 3 = 15)
- 4.3 Explain how a business plan can be changed into an action plan (10)
- 4.4 Discuss any FIVE principles of being an ethical employer. (5 × 2 = 10)
- 4.5 List five things to avoid in a question and answer session. (10)[60]

#### QUESTION 5

The market environment contains both opportunities and challenges for a business

- 5.1 List six areas of challenge in the market environment (12)
- 5.2 Explain the term 'strategic allies' (4)
- 5.3 Discuss five ways in which competitors may present a challenge to a business (10)
- 5.4 List three Acts that a business must be aware of, when employing staff. (6)
- 5.5 List three components that contribute to the future vision of a business. (6)
- 5.6 List eight variables in the macro environment. (16)
- 5.7 Explain three challenges intermediaries may cause to happen. (6)[60]

#### QUESTION 6

Read the scenario that follows and then complete the instructions.

South Africa hosts many international sporting competitions. You have identified a business opportunity to fill a gap in the market for the flags of the participating nations. You would like to establish a small manufacturing business to produce these flags and other memorabilia. You need to decide which is best form of ownership for this business. You are considering only three options: a sole proprietorship, a partnership or a private company.

- 6.1. Discuss the TWO main characteristics of these three forms of ownership. (6 × 2 = 12)  
 6.2 Discuss THREE advantages of these three forms of ownership. (9 × 2 = 18)  
 6.3 Discuss THREE disadvantages of these three forms of ownership. (9 × 2 = 18)  
 6.4 Discuss the choice you will make between these three options and provide the five main reasons why you chose that one and why you did not choose the other two. (6 × 2 = 12)  
 [60]

**SECTION C: (ESSAY TYPE QUESTIONS) ANSWER ANY TWO QUESTIONS**

**QUESTION 7**

Read the scenario that follows and then complete the instructions.

All the businesses are affected by socio-economic problems in the community. News articles in the local newspapers make us aware of the desperate situation of people in the community who live in poverty; the large numbers who are affected by HIV and AIDS as well as the high incidence of crime.

7.1 Discuss the solutions that businesses use to help address the following socio-economic problems in the community:

- (a) Poverty (3 × 2 = 6)  
 (b) HIV AND AIDS (3 × 2 = 6)  
 (c) Crime (2 × 2 = 4)

7.2 What is meant by the term "social responsibility projects"? (4 × 2 = 8)

7.3 Briefly discuss four ways that an enterprise can monitor its micro environment. (16)

[40]

**QUESTION 8**

Having total control over the business environment represents a challenge for all businesses.

Explain what is meant by the Micro – Environment and discuss to what extent this environment can be controlled and influenced.

[40]

## QUESTION 9

Sipho Mbwane is a skilled electrician who owns an electrical contractors business. He would like to expand his business but realises that he cannot raise sufficient capital on his own. He invites three of his friends to join the business.

He approaches you for advice in establishing the business named “Mbwane and Friends, Electricians”. They want a form of ownership that can be easily established without any legal formalities and it must not be separate from the owners.

Advise Sipho on the form of ownership best suited for their business and prepare a detailed presentation that covers all aspects of this type of ownership. [40]

## QUESTION 10

Read the scenario that follows and then complete the instructions.

You recently attended a seminar on the role of businesses in creating awareness of the need for environmental sustainability. The presentation by the speaker was good, but you were disappointed because the quality of the visual aids that were used was poor and the aids were not used effectively. You have decided to arrange a short training session for your department on how to prepare and use visual aids as well as to teach them the required skills for the successful writing of business reports.

- 10.1.1 Discuss THREE points to be considered when preparing visual aids for a business presentation. (3 × 2 = 6)
- 10.1.2 Explain how to use visual aids for a successful business presentation. (13 × 2 = 26)
- 10.1.3 Discuss any FOUR advantages of written forms of communication. (4 × 2 = 8)
- [40]

**Total: 300**

BUSINESS STUDIES GRADE 11 MID YEAR EXAM MARKING MEMORANDUM

QUESTION 1

1.1.1 A

1.1.2 A

1.1.3 D

1.1.4 C

1.1.5 C

1.1.6 A

1.1.7 B

1.1.8 D

1.1.9 C

1.1.10 D

1.2.1 T

1.2.2 T

1.2.3 F

1.2.4 F

1.2.5 F

1.3.1 E

1.3.2 H

1.3.3 G

1.3.4 C

1.3.5 F

[30]

## QUESTION 2

### 2.1

Private company	Public company
Name ends in (Pty)Ltd✓✓	Name ends in Ltd✓✓
1-50 shareholders✓✓	7 or more shareholders✓✓
Shares not freely transferable✓✓	Shares freely transferable✓✓
Needs only a certificate of incorporation✓✓	Needs a certificate to commence business✓✓
Suitable for smaller or family run business✓✓	Suitable for a large enterprise✓✓

( 4 x 2 = 8)

2.2.1 Black empowerment ✓✓and women who were previously disadvantaged✓✓ ( 2 x 2 = 4)

2.2.2 Retrenchments✓✓ and avoiding operational chaos✓✓ and creating a strategic recruitment plan✓✓ (2 x 2 = 4)

2.2.3 80% of the new entrants each year were black ✓✓ (2)

2.3.1 Being involved in community upliftment projects. ✓✓(2)

2.3.2 Any suitable answer such as donating money, skills, being actively involved in fundraising. ✓✓✓✓ (2x2=4)

2.4 The primary, secondary and tertiary sectors are interlinked because the secondary sector process primary products further or uses them to create products. The tertiary sector is involved in creating the links to final consumers via sales, distribution etc as well as providing services needed by the other two sectors. (9)

2.5.1 Franchise, whereby the right to run the business in a specific area is bought, (5) the parties are the franchisee and franchisor (4) and the agreement signed between them is a franchise agreement. (4)

2.5.2 Leasing occurs when goods such as machinery are hired over a period of time for use in the business, but always belong to a third party✓✓ and outsourcing occurs when specific tasks in a business are done by outsiders and not employees✓✓ (2x2=4)

2.6.1 Private company✓✓

2.6.2 Close corporation✓✓

2.6.3 Partnership✓✓

2.6.4 Public company ✓✓

2.6.5 Sole trader ✓✓ (5 x2 =10 [60])

### QUESTION 3

3.1 Including costs of purchase of premises and machinery = 457 150

R350 000 + R20 000 + R80 000 + R3 000 + R750 + R1000 ( 12000/12) + R2400 ( R600 x 4)  
= R457150 (14)

3.2 R100 000 (2)

3.3. Shares, ✓✓ loans from friends and family, ✓✓ bank loan, ✓✓ debentures, ✓✓ a mortgage on the property ✓✓ ( 5 x 2 =10)

3.4 Sole trade ✓✓ or Close corporation ✓✓ ( 2 x 2 = 4)

3.5

Sole trader	Close corporation
One owner ✓✓	1-10 members ✓✓
Not a legal entity ✓✓	Legal entity ✓✓
No continuity if owner dies ✓✓	Continuity ✓✓
Owner personally liable for the debts ✓✓	Owners not liable for the debts except under certain circumstances ✓✓
No formalities to set up ✓✓	Must register ✓✓

(5 x 2 = 10)

3.6 Secondary sector ✓✓ (2)

3.7 Farmer - miller - flour manufacturer - Karina's bakery - distributor - wholesaler. retailer - consumer

plus explanation (9x 2 = 18)

### QUESTION 4

4.1 Job content, hours of work, working conditions, workload, participation and control ( plus explanation) ( 5 x 3 = 15)

4.2 Share the workload Select and train workers properly. Consult workers about working practices. Offer flexitime. Increase worker support. Encourage cooperation and teamwork. Arrange stress management training. Improve equipment and working conditions. Improve managers' understanding, knowledge and skills for dealing with work stress. Implement work and management systems. Develop a friendly and more supportive culture. (5 x 3 = 15)

4.3

1. Define the scope of the project.

- What is its purpose?
- What are the first and last activities?

2. Develop a work breakdown structure.

3. Break the project down into smaller activities.
4. Set time frames, and work out how long every activity takes.
5. Set milestone targets.
6. Decide on accountabilities, who will be responsible for the decisions made.
7. Calculate the financial, human and technical resources you will need.
8. Plot the activity schedule onto a Gantt chart.
9. Implement the project plan.
10. Communicate and review progress. (5 x 2 = 10)

4.4 Do nothing to harm customers or the environment√√ do business with respect√√ make your business transparent√√ keep your finances clean √√keep your business legal√√ do not mislead people√√ be fair√√ do not make decisions that conflict with your personal values√√ (5 x 2 = 10)

4.5 Avoid having a standard response ready to answer most questions. √√ Do not make a second presentation when answering a question. √√ Do not argue and try to prove that you are right or know best. √√Do not get aggressive or defensive. √√ Take time to think before answering a difficult question. √√Be prepared to admit that you do not have the answer to a question. √√Do argue with someone who does not agree with you. √√ (10) [60]

## QUESTION 5

5.1 Customers √√suppliers√√ intermediaries√√competitors√√consumerism√√regulators √√and trade unions√√ (6 x 2=12)

5.2 When two or more businesses work together in a joint venture they are strategic allies. √√ This helps a business to obtain from another business some expertise which they may lack. √√ (2 x 2= 4)

5.3 Industry rivalry √√New entrants to the market√√Cheaper or better substitutes√√The bargaining power of suppliers √√The bargaining power of customers and clients√√The availability of substitute products√√The possibility to copy or duplicate a product√√ ( 5 x 2=10)

5.4 The Labour Relations Act √√The Basic Conditions of Employment Act√√The Employment Equity Act√√The Occupational Health and Safety Act √√The Skills Development Act√√ (3 x 2 = 6)

5.5 Core purpose, √√core vision √√and mission√√ (6)

5.6 International, √√ legal, √√ physical, √√ economic, √√ government, √√technological√√ political, √√social√√ ( 8 x 2 = 16)

5.7 E-commerce, allowing consumers to buy direct from the Internet √√Large retail groups can out price smaller shops√√ Large retailers offer own name brands at cheaper prices √√Consumer protection laws help consumers to manage their debt √√Services provided by intermediaries can increase the costs of a product√√ ( 3 x 2 =6)[60]

QUESTION 6

6.1

Sole proprietor	Partnership	Private Company
Not a legal entity√√ 1 owner√√ No continuity if owner dies√√	Not a legal entity√√ 2-20 partners√√ Dissolved if a partner leaves or dies√√	Legal entity√√ 1-50 shareholders√√ Continuity√√

(6 x 2 = 12)

6.2

Sole proprietor	Partnership	Private Company
No formalities in setting up√√ Owner makes all the decisions√√ No profit sharing√√	No formalities in setting up√√ Sharing of skills and knowledge√√ Can be dissolved easily√√	Shareholders not liable for debts√√ More capital available√√ Can retain valuable employees by giving them shares. √√

(9 x 2 = 18)

6.3

Sole proprietor	Partnership	Private Company
Owner legally liable for debts√√ No continuity√√ Hard to raise capital√√	Partners jointly and severally liable√√ No continuity√√ May be hard to raise capital√√	Cannot trade shares publically√√ Management shared√√ Profits must be shared√√

(9 x 2 = 18)

6.4 Choice = 2, reasons = 5 x 2 = 12

QUESTION 7

(a) Lack of access to healthcare, shelter and education are a major part of poverty. To escape the poverty trap, the following basic needs must be met: adequate food, education, clean water and sanitation, basic healthcare adequate housing (3 x 2 = 6)

(b) HIV/Aids has a huge impact on society through low productivity, increased costs, retraining new employees, etc. This has a negative effect on the economy as a whole. There are laws and regulations with regard to workers infected with HIV/AIDS in the workplace. HIV positive workers have the same rights as other workers and are entitled to the same training, development and promotion opportunities as anyone else. (3 x 2 = 6)

(c) Crime is often a direct result of socio-economic issues such as unemployment, poverty, HIV/AIDS, drug and alcohol abuse. The inability of the government and the judicial system to deal with crime has had a negative effect on the people of South Africa. Foreigners are hesitant to invest in a country with



high crime rates. Crime acts as a deterrent to tourists and leads to skilled citizens leaving the country for somewhere safer. (2 x 2 = 4)

7.2 Social responsibility is very important for the development of our society because poverty and inequality are serious issues. Through social responsibility a business can influence its business environments and address challenges linked to socio-economic issues in its social environment. By preventing unemployment, business helps reduce poverty and crime. Unsuccessful social responsibility projects are very disheartening for the disadvantaged community, but can also do a lot of damage to the corporate image of the business. 4 x 2 = 8)

7.3 6. Environmental scanning, boundary scanning, management information systems, internal audits. (plus explanation 4 x 4 = 16)

## QUESTION 8

The micro environment concerns the internal running of the business. (2)

Control of the micro environment is achieved by using internal **control systems**. These aim to:

- Enable management to make sure that the objectives of the business are met.
- Make sure that reliable financial statements are prepared.
- Check that the business complies with all applicable laws and regulations. (8)

Controllable variables are:

- The mission, vision and goals of the firm.
- The firm's business structure.
- The organisation and use of factors of production
- The organisation of the eight business functions
- The management style
- Management of employees
- Choice of business ethics
- Type of ownership
- Implementation of business policies (10)

Aspects of internal control:

- Controlling the philosophy and values of the business
- Creating efficient information and communication systems
- Monitoring performance
- Assessing risk
- Controlling the activities of the business (10)[40]

## QUESTION 9

Sipho and friends must form a partnership (4)  
Characteristics (7 x 2) (12)  
Advantages and disadvantages (12 x 6) (24) [40]

QUESTION 10

10.1.1 What is the purpose of the information?

What information is important and what must be covered in the presentation?

Who is the audience?

How long should the presentation last?

What resources are needed for the presentation? There is a difference between verbal and non- verbal presentations.

What are the possible questions that the audience can ask?

What are the things that can go wrong during the presentation? (3 x 2 = 6)

10.1.2 Evaluate the audience.

Think of the listener or reader, the content.

Use restraint. Do not overuse colour or decorations

Be accurate and ethical.

Be sure to name sources when you use someone else's facts.

Introduce a visual aid meaningfully.

Do not assume the listener or reader will automatically draw the same conclusions you reached from a set of data. (13 x 2 = 26)

10.1.3 Can be composed and read when the schedules of writers and readers permit.

Messages, letters and reports can be put in draft format and reviewed before sending.

Provides a permanent record.

Writing out allows the presenter to develop an organised, well-considered message.

(4 x 2 = 8)

[40]

TOTAL 300 marks

# Term 3 Introduction

## Topic 1 Entrepreneurial qualities and success factors

Topic 1 describes the qualities of the entrepreneur and the necessary success factors in starting and running a business. This topic explains how to assess a business in terms of critical entrepreneurial qualities and how to identify aspects of the business that can be improved. This is part of determining what makes any particular business successful.

## Topic 2 Citizenship roles and responsibilities

Topic 2 deals with the role of citizens and how, through business, they can contribute to the social and economic development of their communities. This topic includes examples of how individuals have given back to their communities as well as the role that civil society, non-governmental organisations, community based organisations and individual business practitioners can play in the social and economic development of communities.

## Topic 3 Marketing function

Topic 3 deals with the various aspects of the marketing function. Marketing activities as well as the four marketing policies are discussed in detail. The topic also covers marketing in the formal and informal sectors, as well as the use of technology for marketing, specifically electronic marketing. The topic looks at imports and exports, and explains how foreign marketing and the production function align.

## Topic 4 Production function

Topic 4 deals with the different aspects of the production function as well as calculating various production costs. The topic introduces learners to the different production systems, such as mass, batch and job. The topic further covers various aspects of production planning and production control. Safety management and legislation as well as quality control are also addressed in this topic.

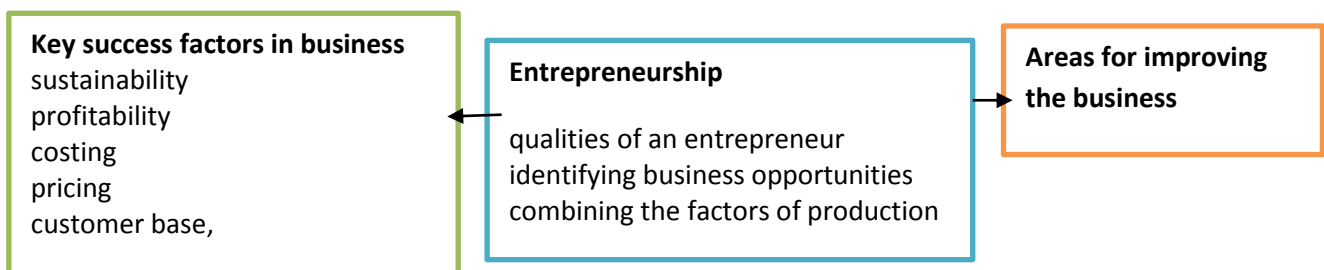


# Topic 1 Entrepreneurial qualities and success factors

## Overview

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Topic 1 discusses entrepreneurial qualities and examines the extent to which a business should embrace them.



## 1 Identification and assessment of a business

How do you know whether a business is entrepreneurial in spirit? Entrepreneurial businesses are not always small or start-up businesses, although many are. For example, the Virgin Group is an entrepreneurial business. Sir Richard Branson, who founded and runs the Virgin Group, is the UK's fifth richest person. Mark Shuttleworth started in his mother's garage.

### 1.1 Entrepreneurial qualities

An entrepreneur is someone who starts and manages or organises his/her own business and can either identify business opportunities to make new products or services or identify business opportunities to change existing products or services.

The following qualities can often be found in entrepreneurs:

**Creativity** - identifying opportunities and challenging normal thinking.

**Risk-taking** –taking calculated risks.

**Perseverance** – it takes at least five years for a business to become established and generate sufficient income to maintain itself and the entrepreneur.

**Need for achievement** –an entrepreneur needs to have a desire for excellence and to succeed in competitive situations.

**Responsibility** – entrepreneurs generate ideas to solve problems and take personal responsibility for achieving goals.

**Organisational and management skills** – entrepreneurs use leadership skills to persuade others to help them realise their vision.

**Confident and ambitious** – success improves self-confidence and self esteem.

**Hardworking and energetic** – entrepreneurs commit their time, skills, expertise and resources to starting a business and carry on in difficult situations.

**Visionary** – look ahead to changes in the market and businesses environment, seeing threats as opportunities and using their knowledge to take advantage of such challenges.

**Desire for independence** – a need to be independent from others.

**Good human relations or interpersonal skills** – they have good communication, motivational and leadership skills.

## 1.2 Entrepreneurial qualities found in businesses

Businesses need to embrace entrepreneurial qualities if they want to be competitive and successful.

The following factors must be remembered:

- Entrepreneurs are the risk takers who are motivated to achieve their goals and make a profit.
- Managers in a business are high-level employees who are paid to organise and manage a business. They are not necessarily the ones who create new ideas.
- An intrapreneur is defined as the ‘inside entrepreneur.’ This person works within a small or large business and uses entrepreneurial skills to benefit the business.

## 2 Key success factors in business

- Success can be defined as achieving a goal or set of goals.
- Success factors are conditions that are necessary for a business to measure its goals.
- It is important to consider the type of business or product, the strategies of the business, the economic climate and business environment.
- Success factors should be measured from time to time, and adjusted to take changes into account.
- Businesses can use sustainability, profitability and customer base to measure success rates.

### 2.1 Sustainability

Business sustainability means managing the three Ps: profits, people and the planet. Businesses that are sustainable are more successful, attract and retain employees and experience less financial and reputation risk.

To manage a sustainable business, the entrepreneur must:

- Have the skills to ensure that the business is successful and will continue to operate in the future.
- Be able to put strategies in place to address the challenges and threats to the business so that it will operate for a long time.
- Ensure that sufficient funds are available for the future.

Practices that promote business sustainability include:

- Involving stakeholders in joint decision making, and learning from customers, employees and the community.
- Having environmental management systems in place to minimise the effects of business activities and avoid causing damage to the environment.
- Analysing the environmental and social impacts of products and services the business uses and produces. The business should aim to reduce waste and recycle wherever possible.
- Being transparent. This includes reporting and disclosing information relevant to internal and external stakeholders, such as its true financial position.

## 2.2 Profitability

The entrepreneur must ensure that the business is able to make maximum profits, and that profit grows on a year-to-year basis. When measuring the profitability it is important to consider both costing and pricing.

### 2.2.1 Costing

Costing means calculating exactly how much the product costs to produce.

This includes **overhead costs**.

Overhead costs consist of the cost of labour, maintaining and replacing equipment, cleaning and administration, transport and delivery, rent, water and electricity, and the cost of faulty or damaged products.

It also includes calculating **break-even**, which is the point where all the costs of the product are covered by the sales. Sales after this point will be profit.

### 2.2.2 Pricing

Pricing means knowing how much to charge for the product or service so that a profit is made. It is important for the price to be in line with competitors' prices and what consumers are prepared to pay.

## 2.3 Customer base

An entrepreneur must identify the **target market** for the business and be sure that the product or service offered meets the customer's needs or wants.

The entrepreneur must constantly develop new products and services to create new needs and wants or to satisfy changing needs and wants of customers.

The entrepreneur should keep a record of the people buying their products and services.

This is known as the **customer base**.

The business owner should collect the customers' contact details or know where to reach customers so as to make contact with them through media like email, SMSs, postal mail and social networks. For current and future success the entrepreneur must be able to maintain and increase the customer base by providing goods and services of good quality and at the right price.

## 3 Areas for improving a business

Areas that can be considered for improving a business:

- Monitor trends because there are constant changes in the macro environment, such as changes in interest rates, that can have an effect on business as a whole. Keep setting SMARTER goals because this will guide the business and help to measure achievements and success.
- Keep track of the financial trends within the business, for example, the cash flow.
- Be more competitive and market effectively. The business should keep up with new trends and the use of technology when marketing, such as using the social networks.
- Keep track of production or operational methods. Stock control, delivery and quality control should be monitored to ensure high quality goods and services.
- Entrepreneurs should communicate with employees, set targets with them, and reward them for their achievements..
- Implement **Total Quality Management (TQM)**.
- Motivate employees to be part of a management system committed to a high standard of work. Manage resources carefully, eliminate wastage and work on weaknesses.

- Learn from best practices. Every industry has ways of doing things that are tried and trusted.
- Businesses should benchmark against similar businesses in the industry.

### End of topic questions

1. Define profitability. (2)
- 2 Why is sustainability a key success factor for a business? (2)
- 3 What is a customer base? (2)
- 4 Explain why a customer base is important in a business. (4)
- 5 What is a key success factor? (2)
6. Why is it important to determine areas for improvement in a business? (2)
7. Name five entrepreneurial qualities. (10)

### End of topic answers

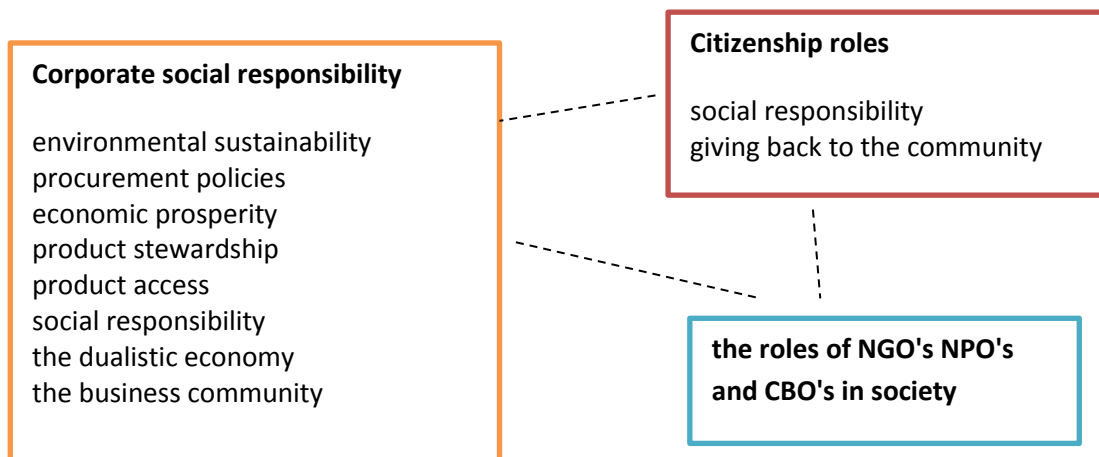
1. The ability of the business to make a profit that grows from year to year. ✓✓ (2)
2. Sustainability means managing the three Ps: profits, people and the planet. ✓✓ (2)
3. A customer base is the group of people to buy specific products form a business. ✓✓ (2)
4. These are loyal to the firm ✓✓and will buy more products✓✓ and also recommend to their friends and family. ✓✓ Their names can be entered on a data base for marketing purposes. ✓✓ (2 x 2 = 4)
5. The achieving of a goal or set of goals. ✓✓ (2)
6. Because there are constant changes in the macro environment that will affect the business. ✓✓ (2)
7. Creativity✓✓ risk-taking ✓✓perseverance ✓✓need for achievement✓✓ responsibility✓✓ organisational and management skills ✓✓confident and ambitious ✓✓hardworking and energetic✓✓ visionary✓✓ desire for independence good human relations or interpersonal skills✓✓ (5 x 2 = 10)

# Topic 2 Citizenship role and responsibilities

## Overview

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Topic 2 discusses the citizenship roles and responsibilities that responsible business practitioners need to perform within a business environment



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## 1. Citizenship roles

Citizenship roles and responsibility towards stakeholders includes factors such as:

- Social responsibility
- Environmental sustainability
- Economic prosperity
- Product stewardship
- Procurement
- Product access
- Dualistic economy, apartheid legacy, poverty and HIV/Aids.

These factors have an effect on how businesses behave and how they interact in the community they serve.

### 1.1 Social responsibility

**Corporate social responsibility (CSR)** is a company's sense of responsibility towards the community and the environment (both ecological and social) in which it operates. Various factors in South Africa contribute to the need for social responsibility. Some of these factors are previous apartheid which has suppressed the majority of the population, rapid population growth, lack of education and skills, urbanisation, poverty, unemployment, and recession.



Businesses need to be involved with social responsibility projects to uplift the communities in which they operate. Examples are programmes to reduce the effects of socio-economic issues such as HIV/Aids, poverty, unemployment, and lack of education and training. Other possibilities include involvement in orphanages, world hunger programmes and sponsoring sports events.

### **1.2 Environmental sustainability**

Industrial businesses can have a damaging effect on the environment. The government has passed laws about the amounts of pollutants allowed, as well as laws prohibiting dumping of chemicals into water resources. Businesses need to comply with these laws and put policies in place to conserve the environment for future generations. Many businesses support green issues to sustain the environment.

### **1.3 Economic prosperity**

Business owners have a responsibility to make sure their business make a profit. If a business goes bankrupt the employees will be unemployed, suppliers lose an intermediary and consumers lose access to a product or service.

### **1.4 Product stewardship**

- Businesses need to practice product stewardship by indicating ingredients on product labels. This warns consumers of possible effects that the products may have. An example is food products containing traces of nuts, as some people are highly allergic to nuts.
- The effects of new pharmaceutical products need to be investigated before the products are made available to the market. This is to make sure they are safe to use and have no dangerous or long term effects.

### **1.5 Procurement**

Procurement relates to purchasing decisions. Businesses are encouraged to support small and medium enterprises, especially those that adhere to BEE and BBBEE policies.

### **1.6 Product access**

Businesses must make their products more accessible and more affordable to lower income groups. Examples include food producers who offer cheaper product lines aimed at the lower income group. Cell phone service providers supply mobile stations in villages with pre-paid vouchers as a cheaper option to lower-income groups.

### **1.7 Dualistic economy, apartheid legacy, poverty and HIV/Aids**

- South Africa has a dualistic economy because some parts of South Africa operate as first world, developed economies (cities) while other parts are still operating as third world, developing economies (villages).
- Many people live in poverty and are caught in a cycle that cannot be changed easily. HIV/Aids has a negative effect on the people and the economy of the country.
- It is difficult for the government to handle the impact of these socio-economic issues alone.
- Businesses are expected to work together with the government to decrease these issues.

## **2 The role of citizens in their communities**

Citizens can contribute to the social and economic development of their communities.

- Businesses need to encourage employees to be involved in initiatives to uplift local communities. Programmes aimed at reducing socio-economic issues such as HIV/Aids, poverty, crime, unemployment and lack of education and training need to be put in place.
- Businesses should encourage customers to support their social responsibility projects or at least raise awareness among customers, examples are projects donating food or blankets, donating money or food products, competitions where the proceeds go towards a community-based project, or feeding schemes at local schools.

### **2.1 The social and economic development of communities**

Citizens can contribute to social and economic development of their communities by being involved in initiatives to uplift communities through non-governmental organisations (NGOs), non-profit organisations (NPOs) and community-based organisations (CBOs).

### **2.2 How individuals have given back to their communities**

Individuals as well as businesses can have a positive impact on their communities through their entrepreneurial activities.

### **3 The concept of a business community and how the individual can play a role within this community**

- The business community includes everyone in the area in which the business operates.
- If the business helps to uplift the community, more people in the community have the means to buy products or services from the business.
- The business and members of the community will be more successful if they work together to reduce social and economic issues.
- Individuals who have the means ( financial, know-how or time) can get involved in community upliftment programmes.
- Counsellors are needed to council HIV/Aids patients and affected families to help them cope emotionally.
- Educators can get involved with businesses to teach workers or illiterate people in the community to read and write.
- Churches can get involved in feeding schemes to distribute food donated by businesses.

## 4 The role of NGOs, CBOs and NPOs

Businesses and civil society, including NGOs, CBOs, NPOs and individual business practitioners, can work together to reduce some of the socioeconomic issues in South Africa.

**NGOs** are non profit, non-governmental organisations. They are created as legal persons. Examples of NGOs include Child Welfare, the SPCA and local sport clubs.

**NPOs** are non-profit organisations. Profits are not shared among the members but are used for furthering the organisation's purpose. Examples are trade unions, public arts organisations and charitable organisations.

NPOs include:

- Organisations that have registered as Section 21 Companies under the Companies Act 61 of 1973
- Trusts that have registered with the Master of the Supreme Court under the Trust Property Control Act 57 of 1988
- Any other voluntary association that is not-for-profit.

Funds, time, property, effort and skill can be contributed to these organisations to help them with community projects.

### End of topic questions

1. List four factors that play a part in the role of citizenship. (8)
- 2 Describe how businesses are also citizens of a country. (6)
- 3 Define social development. (2)
- 4 Why are NGOs and CBOs necessary? (4)
- 5 In what ways are corporate social responsibility and business ethics related? (4)
- 6 What is meant by the term procurement and can businesses use this in their citizenship role? (4)
- 7 How can civil society play a role in economic and social development? (4)

## End of topic answers

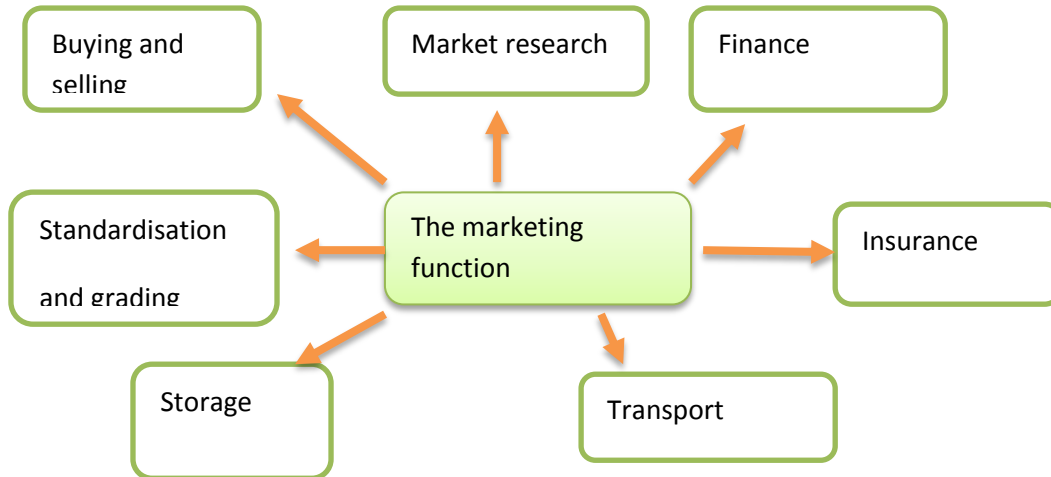
1. Social responsibility√√ environmental sustainability√√ economic prosperity√√ product stewardship √√procurement product√√ access dualistic economy, √√apartheid legacy, √√ poverty√√ and HIV/Aids. √√ (4 x 2 = 8)
2. By exercising corporate social responsibility √√and getting involved in social upliftment projects√√ and by creating sustainable businesses. √√ (6)
3. Development of a more equal society and reduction of poverty etc. √√ (2)
4. Because they tackle social community projects√√ that are needed but do not have a profit motive. √√ (4)
5. Because ethical business cares about the community and makes sure it plays a role in social upliftment projects. √√√√ (4)
6. Procurement is the purchasing of items needs by the business in their production process √√and the business can make sure it adheres to BEE policies. √√ (4)
7. By choosing to buy products from companies that practice ethical business√√ and by getting involved in social upliftment programmes √√ (4)

# Topic 3 The Marketing Function

## Overview

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Topic 3 deals with the activities of the marketing function



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## 1 Aspects of marketing

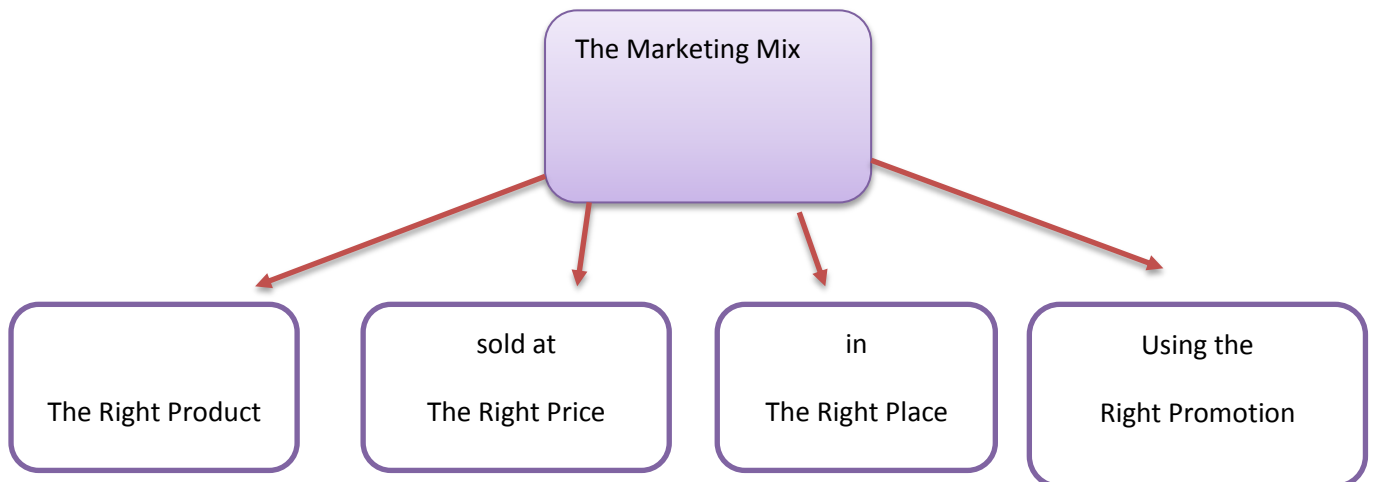
The marketing function bridges the gaps between the producer or manufacturer and the consumer.

Tasks performed by the marketing function include:

- Tasks dealing with the product
- Tasks dealing with the price
- Tasks dealing with the place of distribution
- Tasks dealing with promotion.

The business must co-ordinate and combine all the above tasks in order to maximise their impact and effectiveness.

## The marketing mix - the 4 P's of marketing



### Conditions for creating the right marketing mix:

- The product must satisfy consumers' need and wants.
- The price must be right
- The goods must be available in the right place at the right time.
- The target group needs to be made aware of the availability of the product through promotion.

### 1.2 Market research

- The business can identify the consumers through market research and gain information on:
  - The size of the market
  - Consumers' incomes
  - Consumers' willingness to spend money
  - Age and culture
  - Location of existing and potential consumers.

### 1.3 Standardisation and grading

- Standardisation means producing **identical** goods that meet specific standards,
- The South African Bureau of Standards (SABS) seal of approval ensures products conform to a specific standard or quality.
- Grading means **classing** products according to their characteristics of such as size or weight. it usually refers to agricultural products . For example, eggs and potatoes. Diamonds are graded according to size.

### 1.4 Storage

- Storage means keeping goods safe and protected until consumers need them.
- Goods are stored to prevent them from spoilage and to balance demand and supply. Fruit grown in the winter, such as apples and pears can be available all year due to cold storage.



Agricultural products are graded according to specific characteristics.

### 1.5 Transport

Transport is an important marketing function because without it distribution would not be possible. There are five different forms of transport — rail, water, road, pipeline and air.

Factors that will influence the form of transport include the following:

- Cost – the form of transport must be affordable.
- Type of product- heavy or bulky products would need rail or road transport or even water transport, products that are expensive, light or breakable might need air transport.
- Travel time– air transport is very fast, water transport is much slower. Urgently needed products will need a fast form of transport.





## 1.6 Financing

Financing can be provided by the manufacturer, the wholesaler, the retailer or a financial institution. Different forms of credit finance include:

- Credit on open account – the buyer gets the goods and is given a certain period of time in which to pay the amount owed, 30, 60, 90 or 120 days.
- Instalment sale – the buyer pays a deposit and then pays the balance off over a specified period of time. Interest is charged on the balance owed, for instance, when buying furniture.
- Lease – the consumer is allowed to use the goods but may never become the owner of those goods.
- The buyer can get finance through a credit card or a loan from commercial banks. This type of credit can be used to purchase goods at any time up to a certain limit. Interest is charged on the outstanding amount.

## 1.7 Insurance

Insurance is a **contract** entered into by two parties, the **insurer** and the **insured**. In return for the payment of a **premium** by the insured the insurer agrees to cover the **losses** suffered by the insured as a result of a specified possible event.

Farmers, manufacturers, wholesalers, retailers and consumers can be faced with one or more of the following risks:

- Human risks such as theft, bad debt, breakage and damages due to negligence and strikes.
- Physical risks which can be the result of natural causes such as storm damage, earthquakes, fire, lightning, floods, droughts and insect outbreaks.
- Economic risks such as changes in the demand or supply of certain products, price fluctuations, changes in fashion trends, technology advances and tougher competition.

A business can insure itself against human and physical risks, but not against economic risks.

## **1.8 Buying and selling**

The main aim of marketing is to sell goods and services to those individuals and households that will use them. Selling is influencing buyers to buy through effective sales promotion. Businesses such as wholesalers and retailers buy their goods from producers or manufacturers for resale. These businesses are called intermediaries and are the link between producers or manufacturers and the end consumer.

Through the marketing activity of selling, the buyer takes possession of the goods. Forms of selling include:

- Personal selling – direct selling between the manufacturer and the buyer.
- Agency selling – someone who sells goods on commission for others.
- Brokering – a sales agent who sells a particular product is a broker.
- Other forms of selling – vending machines, mail-order, door-to-door selling and self-service selling and on-line shopping.

## 2 Product policy

Product policy includes the choice of products, design of products, packaging and the use of trademarks and brand names. The product must satisfy both the customer's practical needs, such as buying an umbrella for the rain, but also the customer's emotional needs such as the right brand name for status.

### 2.1 Types of goods and services

#### Goods

**Convenience goods** A relatively inexpensive item where little shopping effort is needed. Very little thought goes into buying these goods.

Examples: bread, milk and sugar

**Speciality goods** More thought and comparison is required when shopping for these goods. The product is usually more expensive and the consumer will consider the price, quality and brand name of the product.

Examples: jewellery, clothing or furniture

**Industrial goods:( Products that are used in the production of other goods).**

Industrial goods Industrial goods are any products that are used in the production of other goods. This can include a wide range of raw materials or semi finished goods as well as capital goods, such

as equipment and machines that are used to produce a finished product.

Examples: machine equipment, trucks

**Services:** Personal help or assistance given to a customer. Services are intangible and perishable.

**Personal services** Personal services are aimed at the final consumer and often carried out by professionals.

Examples: doctor, plumber, hairdresser

**Auxiliary or commercial services**

These are all the services involved in taking the goods or services from producers to consumers and are often carried out by intermediaries.

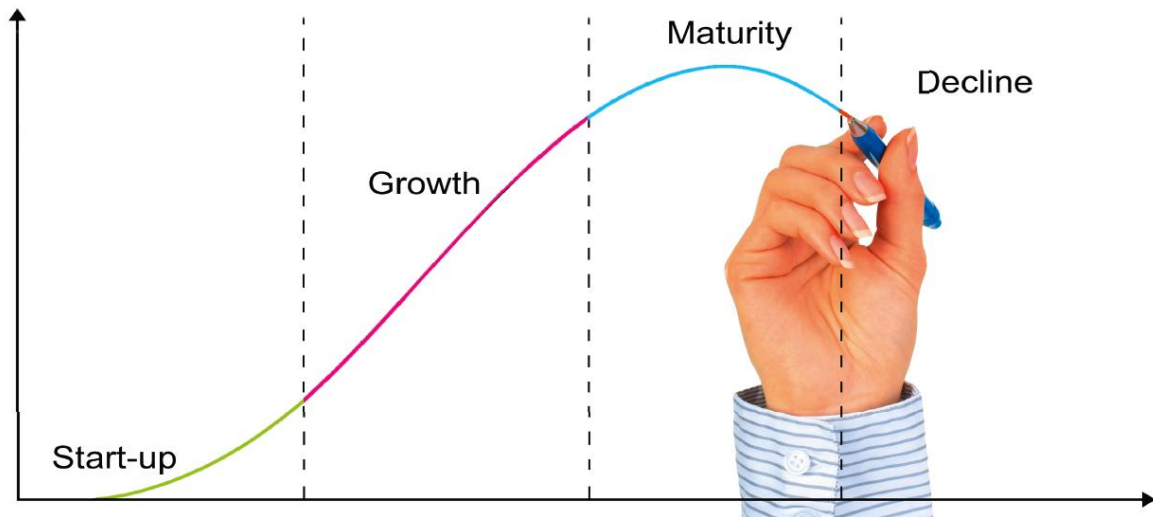
Examples: transport, banking, telecommunications

### 2.2 Product development

Fast technological development results in products getting outdated quickly. Product development is an attempt to design, create and market new products as well as modify existing products.

## 2.3 Product life cycle

After a new product has been introduced or launched into the market, the product gains more and more customers as demand for it grows, eventually the market stabilises and the product becomes mature. After a period of time the product could be overtaken by the development and introduction of superior products from competitors. The product could then go into decline and eventually be withdrawn from the market. The duration of each stage varies from product to product. A product's life can be divided into four stages:



### 2.3.1 Start-up (introductory) phase

The business wants to create product awareness and to develop a market for the product. Sales will be low because the business has to create a demand for the product as customers are not aware of it or do not know it well enough

### 2.3.2 Growth phase

The business wants to build brand preference and to increase market share. Sales increase as more customers become aware of the product and the business is more profitable.

### 2.3.3 Mature phase

Maturity phase is the most profitable. The primary objective at this point is to defend the market share and to maximise profits.

### 2.3.4 Decline phase

Sales decrease as the market becomes saturated. At this phase the business can do the following:

- add new features and find new uses for the product
- reduce costs to offer the product at lower price
- discontinue the product.

## 2.4 Product design

Continuous development of new products is important to ensure that new ideas are available to replace goods that are becoming less popular or outdated.

### Step 1

The first step in product design is **identifying consumer needs** and if these needs are satisfied by current goods and services on the market.

## **Step 2**

**Select and sift product ideas.** Once several ideas are generated, each idea must be evaluated and the best idea selected. The best idea will not necessarily be the cheapest.

## **Step 3**

**Design and test the product idea.** Once the best idea for the new product has been selected, the design must be sketched and worked out in a little more detail. The designer will come up with a basic 3D computer design that is detailed enough to be sure the idea will work. This is the step where an idea is either given the green light or trashed.

## **Step 4**

**Analyse the profitability of the product concept.** This step will determine if the money that is going to be invested in the product will be profitable or not.

## **Step 5**

**Design and test the physical product.** If research shows that the product is going to be profitable the product concept is then transformed into an actual product and the product is made for the first time.

## **Step 6**

**The test marketing of the reactions of the consumers** to determine how consumers feel about the product. Customers being happy with the product will lead to a decision to go ahead and make the product.

### **3.5 Packaging**

Packaging refers to the container or wrapping that holds a product or group of products.

Most packaging serves the following functions:

- Physically protects the product
- Promotes marketing of the product
- Prevents product from spoiling
- Prevents tampering or theft
- Improves convenience in use or storage
- Makes products easier to identify.

#### **3.5.1 Requirements of good packaging**

- It must be eye catching and attract the immediate attention of the consumer.
- It must suit the product.
- It must be suitably designed for the target market, for instance, convenience goods in inexpensive packaging, like milk in a plastic bottle.
- It must be able to distinguish itself from its competitors.
- It must support the image the business is trying to create.
- It must be right for display purposes and meet the requirement of retailers.
- It must be environmentally responsible.
- It must protect the contents.
- It should be easy to distribute, handle, transport and use.

#### **3.5.2 Forms of packaging**

##### **Speciality packaging**

Designed for a specific product and suiting the characteristic of the product, for example, sunglasses in a special case or pharmaceutical products in special containers.

##### **Packaging for double use**

Designed so that it can be used again after the contents have been used, for instance, margarine tubs can be used to freeze left-over food.

##### **Combination packaging**

Two or more similar products or products that are related are packaged together. This is useful for special offers or when new products are introduced, for example, aftershave with a razor, hairbrush with clips and hair bands.

##### **Kaleidoscopic packaging**

Also called continually changing packaging. The main objective with this packaging is to create a consumer demand for the packaging and the product will then sell itself. For example, the national flags of countries taking part in a sporting event are put on a series of cold drink cans or the latest Disney movie characters are put on breakfast cereal boxes.

##### **Packaging for immediate consumption/unit packaging**

This is suitable for products that are used immediately and the packaging is then thrown away after use, for example a packet of sweets or a can of cold drink.

##### **Packaging for re-sale/ multiple packaging**

Bulk packaging makes it easier for retailers to handle, store and transport products. The retailer will then sell it in smaller quantities, for instance, a box with 48 chocolates bars.

##### **Environmentally friendly packaging**

This is biodegradable and easily recycled or re-used packaging. Plastic bags and containers are not friendly to our planet but packaging made from paper is environmentally friendly. Packaging must distinguish a product from its competitors' products.

### 3.5.3 Branding

Branding means a name, a term, a symbol, or a design that is used to identify a product. A **brand name** is that part of the name that can be spoken — letters, words and numbers. A **brand mark** is the element that is not made up of words, but is often a symbol or a design. When a new product is introduced to the market consumers will not use it until they know more about the product. Marketers may issue free samples to customers to encourage consumers to use the new product. There are three stages of brand acceptance.

#### Stage 1 Brand recognition

When consumers are able to identify the product, the marketer has achieved the first step towards brand acceptance.

#### Stage 2 Brand acceptance

If a consumer asks for a special brand, it is seen as brand acceptance. If the special brand is not available however, the consumer will buy another brand.

#### Stage 3 Brand insistence

When consumers are not willing to buy any other brand except the brand they want, this is seen as brand insistence. All businesses ultimately want their consumers to reach brand insistence because at this stage consumers will accept no alternative brands. This gives the business the competitive edge over other businesses.

### 3.5.4 Trademarks

A trademark may consist of words, numerals, drawings, signs, symbols, colours or combinations thereof. It identifies the goods or services of the owner of the mark. It provides protection to the owner of the mark by ensuring exclusive rights to use it to identify goods or services, or to authorise another to use it in return for payment. A trademark can be a brand name, a slogan, a logo or a specific shape or a combination of these, for example:

- Brand name: Coca Cola, Spur or Nike
- Slogan: 'Let your fingers do the walking.'
- Logo: MacDonal'd's or Nike
- Specific shape: Coca Cola bottle
- Colour: Edgar's red square, Coca Cola's red cans

#### Manufacturer's trade mark

The manufacturer markets all the products under one brand name, e.g. Nestlé e.g. Nestlé chocolates,

Nestlé hot chocolate, Nestlé coffee

#### Individual trade mark

The manufacturer gives each of the products its own individual brand name. e.g.

Volkswagen Golf, Jetta,

Polo and Passat

#### Generic trademark

Products that do not include the company name or other indentifying terms, such as Vaseline, Sellotape, etc. e.g. Elastoplast is a brand name for Johnson & Johnson's line of adhesive bandages and related products.

#### Retailer's trade mark

The retailer markets the manufacturer's product under a name of its own. e.g. Woolworths, Pick 'n pay

### 3.5.5 Importance of trade marks

The trademark forms the starting point for advertising the business and its products. It is an important asset for the business.

The business can extend its product range because it is easy to market products under a well-known and popular trademark.

A trademark can speed up a purchase transaction and increase sales.

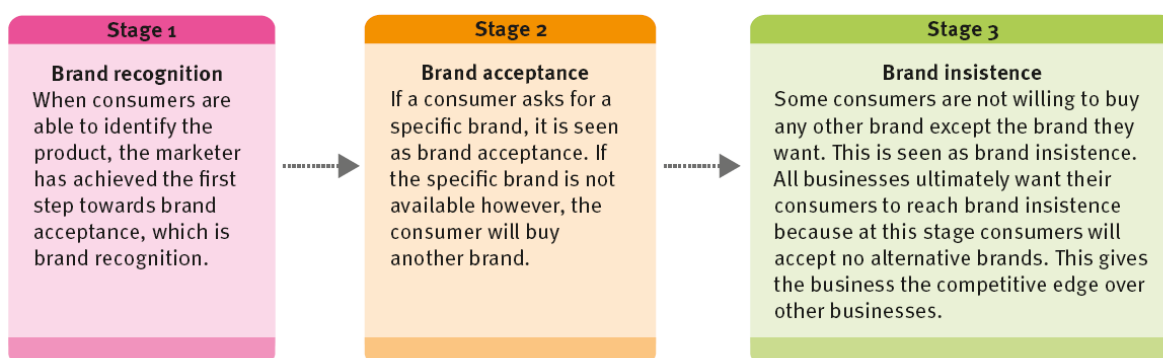
A trademark creates loyalty among consumers and makes it difficult for the consumer to choose substitutes.

A trademark creates a product image that can be trusted by consumers.

### 3.5.6 Registration of trade marks

Trademarks can only be protected if the trademark is registered according to the requirements of the Trade Marks Act. This is done to make sure that only a specific business may use the trademark. The rights of the owners of trademarks are protected for a certain period of time. After that the trade mark can be renewed. The Companies and Intellectual Property Registration Office (CIPRO) administers the Register of Trade Marks, which is the record of all the trademarks that have been applied for and registered in the Republic of South Africa

There are three stages of brand acceptance.





## 4 Distribution policy

Distribution means the route that a product follows from the time it was produced or manufactured until it is sold to the end consumer. This route is called the **distribution channel**.

### 4.1 Channels of distribution

A producer or manufacturer can decide to distribute the product directly to the end consumer, or to make use of intermediaries (middlemen) to help with the distribution function.

#### 4.1.1 Intermediaries

Intermediaries can include some or all of the following:

**Wholesalers** buy products in bulk (large quantities) from the manufacturer and store them in warehouses. They then sell these products in smaller quantities, usually to retailers. Examples are Makro and Cash & Carry.

**Agents** – Agents act as representatives for producers, manufacturers and wholesalers and do not take ownership of products. They earn commission on sales. Examples are Tupperware, Honey jewellery or Justine beauty products.

**Brokers** – These are sales intermediaries who do not take ownership of the product. Their main purpose is to negotiate markets where there are only a few buyers or sellers. They usually specialise in a particular product, country, province or area. Examples are insurance brokers, wool brokers or stock brokers.

**Retailers** – They are the last link in the distribution process as they buy goods in fairly large quantities from manufacturers or wholesalers and sell them in smaller quantities to customers. Examples are Pick n Pay, Edgars or CNA.

#### 4.1.2 Direct selling

Direct selling occurs when the marketing and selling of products is done directly to consumers by the producer.

It does not involve intermediaries (middlemen). These manufacturers prefer to keep complete control over the distribution of their products.

Reasons why a manufacturer may choose to use a direct selling path without intermediaries include:

- The manufacturer prefers to negotiate with the consumer because the manufacturer needs to demonstrate the product, or provide an after-sales service.
- Intermediaries are not willing to distribute the manufacturer's goods.
- No auxiliary services such as transport, insurance storage, re-sorting of products, or financing are offered by intermediaries.
- Intermediaries cannot deliver the product to the consumer soon enough, as the product could be perishable.
- Retailers and consumers prefer the manufacturer to supply directly to them because the products will be cheaper.
- The manufacturer does not want an intermediaries to share in the profit.

#### 4.1.3 Indirect selling

Indirect selling occurs when the manufacture makes use of middlemen such as wholesalers, agents, brokers and retailers. Some reasons why a manufacturer may decide to use middlemen to sell products include:

- The manufacturer may not have enough money to pay for the distribution of the products.
- The manufacturer is not knowledgeable about the distribution of the product.
- The manufacturer can use the capital saved by not acting as a distributor.

- Many manufacturers do not have enough related products to justify their efforts and cost in distributing their products themselves.
- A geographically scattered target market makes distributing an expensive process. In order to keep distribution costs low, it may be better to make use of intermediaries who also distribute other products.
- Many manufacturers cannot supply the necessary auxiliary services.

## 5 Promotion (communication) policy

The marketing manager's work is to inform the target market that the product is available. The **right product** needs to be made available at the **right place** and at the **right price**. When consumers are informed about the product, it is known as **marketing communication** or **sales promotion**. There are four components of marketing communication.

### 5.1 Sales promotion

Sales promotion is any initiative undertaken by an organisation to promote an increase in sales. It involves marketing activities such as:

**Buy-One-Get-One-Free** – for example, Clicks offers the customer to purchase one product and get the other one for free.

**New technological media** – websites and cell phones that support a sales promotion. For example, Nestle prints individual codes on KIT-KAT packaging, and a consumer enters the code on a dynamic website to see if they have won a prize. Consumers can also text codes via their cell phones.

**Free gifts** – some beauty houses give you a free gift if you buy some of their products.

**Discounted prices** – Mango airline emails their customers with the latest low-price deals once new flights are released or additional destinations are announced.

**Joint promotions** – fast-food restaurants often run sales promotions where toys relating to a specific movie release are given away with promoted meals.

**Free samples** – tasting of food and drink at sampling points in supermarkets.

**Vouchers and coupons** – available in newspapers

**Competitions and prize draws** – in newspapers, magazines, on the television, radio and the internet.

**Cause – related** and fair-trade products that raise money for charities and for less well-off farmers and producers, are becoming more popular, for example Woolworth's MySchool card donates money from purchases to education causes.

**Finance deals** – some car manufacturers offer 0% interest finance over three years on selected vehicles.

Many of the examples above are focused on consumer but they can be aimed at wholesalers and distributors as well.

### 5.2 Advertising

Consumers come across advertisements every day when they watch TV, read the newspaper or magazines, listen to the radio or visit websites. Advertising persuades people to buy certain products and also brings goods to the attention of consumers.

#### 5.2.1 Methods of advertising

- Print media – Newspapers, magazines, flyers, brochures, telephone directories.
- Outdoor advertising – Banners, posters, billboards, on dustbins, three dimensional adverts.
- Mobile advertising – Signs on taxis, buses, delivery vans, business vehicles.
- Broadcasting advertising – Television and radio.
- Exhibit advertising – Doing presentations at shows and exhibitions.
- Sponsorship advertising – Supporting social and environmental projects, handing out free T-shirts and caps with business logos.
- Online advertising – Use of internet websites, email.

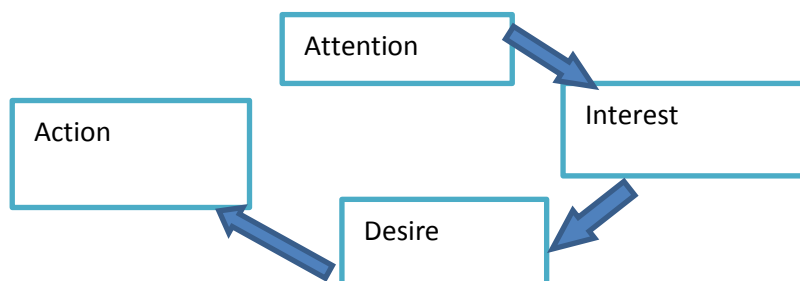
## 5.2.2 Principles of advertising

There are several principles that businesses to consider when advertising:

- The marketer must know all the facts about and uniqueness of the product before planning an advertising campaign. This ensures that the qualities of the product are advertised correctly.
- A product that belongs to an existing brand must use the association to help customers recognise the business or the brand. For instance, Virgin must advertise the group relations Virgin Airlines, Virgin Gym, Virgin Credit and Virgin Mobile.
- The business should follow the **AIDA** principle when creating an advertisement.
- The advertisement must have a design or a logo that will attract attention or a catchy tune so that consumers will remember it.
- Businesses must choose the correct medium in which to advertise. For example, skin products for teenagers should be advertised in magazines aimed at teenagers.
- The most cost-effective method of advertising must be used. Advertising expenses must be kept within the budget. Business must make sure that goods advertised are of a good quality and that the correct information is given in the advertisement. It would damage the reputation of the business to advertise goods of bad quality or to give incorrect information.
- Competitors must never be criticised in an advertisement. This is unethical and also against the law.

## 5.2.3 Requirements of a good advertisement based on the AIDA principle

Advertising has the objective of informing, persuading, and reminding the target audience to take a specific action. All advertisement must go through the process of attracting attention, holding interest for long enough to stimulate a desire for the product, and finally push the potential consumer to some type of action. **AIDA stands for Attention, Interest, Desire, Action.**



The steps involved in creating a good advertisement:

### STEP 1 MARKET RESEARCH

Identify the target market that the advert is aimed at, that is, possible buyers. Investigate competitors and their products.

### STEP 2 AIMS

Define objectives that are clear, precise, and measurable, for instance, sales and/or increased product or brand awareness.

### STEP 3 BUDGET

Determine how much money is available for the advertising campaign.

#### **STEP 4 CHOICE OF MEDIA**

Specify the medium (magazines, radio, television, newspapers, internet). Consider:

- What are the rates charged?
- What is the available space and listening or viewing time?
- Will the advertising medium chosen reach the target market?
- Will the nature and content of the message be suitable?

#### **STEP 5 THE ADVERT USING THE AIDA PRINCIPLE**

The content of advert must have:

- attention grabbing headline
- explanatory body content.

The Design of advert must have:

- attention grabbing layout
- appropriate artwork for the medium.

#### **STEP 6 LAUNCH CAMPAIGN IN THE MEDIA**

Consumer sees the campaign.

#### **STEP 7 SUPPLY THE GOODS TO SHOPS**

Consumer buys the product.

#### **STEP 8 REVIEW THE CAMPAIGN**

Establish the success of the campaign. The following methods can be used to test the results of the campaign:

- Ask the customers This can be done by using staff members to enquire in shops.
- Built-in-feedback such as coupons to be completed and returned.
- Number of customers. Find out how many customers visited the shop after the marketing campaign was launched.
- Sales volumes. Sales volumes may be compared with the sales volumes before the campaign was launched.

#### **5.2.4 Ethics of advertising**

The following advertising practices are considered unethical:

- Deceptive advertising is when a business uses false statements or withholds relevant information to get people to buy the product or service. For example, if customers are offered to 'buy-one-get-one-free', it is unethical to double the price of the product to cover the cost of the free item.
- Negative advertising is where a business points out the disadvantages of a competitor's products or lies about a competitor's product.
- Pressure to buy luxury goods can create false wants and can be damaging to consumers' finances.
- Advertising should not include any form of discrimination or damage to human dignity.

## **6 Publicity**

Publicity is a form of communication that is free to a business, but the business has no control over the content of the message.

The value of publicity includes the following:

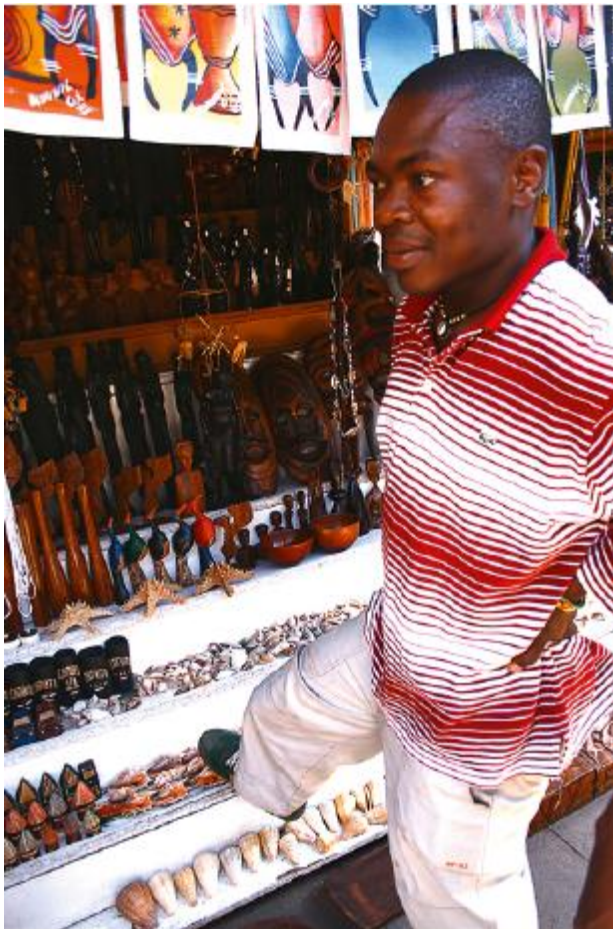
- It has a higher degree of credibility. It is reported by a third party.
- It is free. There are no associated media, space or time costs.
- A business can react quickly with a news release if it has to.
- As it is presented as news, consumers are likely to pay attention to it.

## 7 Personal selling

Personal selling is paid personal communication that attempts to inform customers and persuade them to purchase products or services.

Success in sales depends upon some basic principles:

- Be sincere and listen to the customers to understand their needs and wants.
- Have a passion for your product and believe in it.
- Constantly improve your sales and communication skills.
- Ask questions and listen carefully before speaking again.
- People are all different, so customers also need to be treated differently.



An informal trader needs no more than space to display their goods.

## 8 Pricing policy

### 8.1 Importance of pricing

Pricing is one of the most important aspects of the marketing mix. The price can cause the success or failure of a product and therefore should be determined correctly so that a profit can be made.

The price of an item is determined by how much of the product is sold to customers and the amount of profit made on each product item sold.

#### 8.1.2 Pricing techniques

A business can adopt different pricing strategies for several reasons, such as:

- Breaking into a new market
- increasing its market share
- Trying to increase its profits
- Ensuring costs are covered and a particular profit is earned

#### 8.1.3 Price determination

The following steps are followed when marketers determine price:

##### **Determine cost price**

- Costs determine the lowest price that a firm can ask for a product. The selling price must be

higher than the cost price in order to make a profit.

##### **Determining the market price**

- The market price is the price the consumers are willing to pay for the product.

##### **Determining the target price**

- Establish the selling price based on the competitors' prices.

##### **Determining the final price (selling price)**

- The final price is the price at which the product is offered to buyers.

#### 8.1.4 Factors influencing pricing

There are many factors that could influence the price of a product or service.

##### **Monopoly**

This is a market where a single company or group owns all or nearly all of the market for a given type of product or service. A monopoly is characterised by an absence of competition, which often results in high prices and inferior products or services, Eskom is an example of a monopoly.

##### **Oligopoly**

This is a market that is controlled by a small group of firms. In an oligopoly, there are at least two firms controlling the market and each can decide on their own price, for instance, Telkom and Neotel, or SABC and MNET.

##### **Monopolistic competition**

This is a market where one seller rules or leads the market even though there are other sellers selling the same or similar product or services. Consumers are often loyal to the one seller's brand. This is characteristic of the fast food industry, in which all services are basically the same, but are marketed differently, so there is a perception that some fast food restaurants must be better than others. Another example is jeans such as Levi's.

##### **Perfect competition**

In a perfect competition market there are many buyers and sellers' prices are determined by supply and demand, for example, selling second-hand cars, or vegetables, bread and milk.

##### **Nature of demand and consumer behaviour**

Before setting a price for the product the marketer must determine the relationship between the price and the demand for a product. The marketer must determine the price elasticity of



demand. This means how sensitive the demand is to price changes. The demand for necessities, like bread and milk for example, is inelastic. A change of price will not affect sales volume because the buyer has no option but to buy in order to survive. The demand for luxury goods, like jewellery, is elastic, because buyers will avoid buying the product if the price is too high.

#### **Availability of substitute goods**

The availability of lower priced substitute goods can cause consumers rather to buy substitute goods. For example, if the price of butter increases drastically, consumers might choose to buy margarine instead because it is cheaper.

#### **Fixed prices of products**

When the government decides to fix the prices of products, businesses cannot change the price and ask more or less than what is regulated. For example, the retail profit margin of petrol is fixed in South Africa.

#### **Normal trade practices, such as allowing discounts**

It is normal trade practice in some industries for businesses to give discounts.

#### **Cash discount**

The business gives the customer a 10% discount, for example, with cash sales.

#### **Seasonal discounts**

A discount for customers who buy products or services out of season.

For example, a clothing retailer may sell winter stock at the start of the summer season at a discounted price.

**Bulk discount** Consumers who buy in large quantities often get a discount, which means they are getting products at a lower price per unit.

#### **Trade discount**

This is a discount usually offered to intermediaries in the same trade. A manufacturer might give a particular wholesaler a trade discount when the wholesaler buys from the manufacturer .

#### **Attitude of distributors**

Manufacturers that use distributors such as wholesalers or retailers to market their products must consider the distributor's reaction when prices are determined. The distributor may be put off selling products when the price is too high or drops too low.

#### **Production and distribution costs**

The selling price must be able to cover the cost of producing the product, as well as the costs of distributing the product, such as transport, storage and insurance.

### **8.1.5 Price adjustments**

Reasons for price adjustments:

- The cost of production or distribution may have increased because of an increase in the cost of petrol, electricity or wages of workers.
- A new product or service by a competitor enters the market or a substitute product or service is available.

## 9 Marketing in the formal and informal sectors

The informal sector offers the opportunities to start small businesses and to create employment. Many businesses start off in the informal sector and then become large businesses that operate in the formal sector.

### 9.1 Description of the formal sector

These businesses are registered with the South African Revenue Services (SARS). They must pay income tax on their profits and Pay As You Earn (PAYE) tax collected or paid over, which is tax collected on behalf of the employees.

### 9.2 Marketing in the formal sector

- Effective marketing is critical to the success of businesses in the formal sector.
- Must abide by the rules and laws laid down by the government that will influence marketing. E.g. the Consumer Protection Act 68 of 2008 which protects consumers from unfair or deceptive advertising and marketing practices, and the Competition Act 89 of 1998 which regulates competition between businesses.
- Business in the formal sector must pay attention to marketing and advertising regulations laid down by independent bodies such as the Advertising Standards Authority (ASA) of South Africa.

### 9.3 Description of the informal sector

- The informal sector includes all those business that are not taxed, are not monitored by the government or included in any gross domestic product (GDP) calculations.
- Examples include street vendors, hawkers, shebeens, flea markets, taxi drivers, home industries and spaza shops.
- It is made up of small businesses that require low capital investment.
- It is easy and cheap to start these businesses as no records have to be kept and no tax is paid to the government.
- Owners usually don't need formal training on how to run the business, although some form of training can be beneficial.

#### Advantages

- Owners running the informal business gain valuable business knowledge through experience.
- Offers the opportunity for someone who was previously unemployed to earn an income and become self sufficient. When the business grows they could also employ other people. This could reduce crime.
- Cheap start-up costs and structures are used because they often only need a small table with an umbrella, which means capital requirements are small.
- Introduces the free market system where the business is free from state intervention.

#### Disadvantages

- Sometimes poorly developed physical markets available for the informal trader to sell goods or services.
- Lack of working premises and adequate infrastructure such as storage facilities, transport, water and electricity.
- Limited access to funds from financial institutions.
- Personal income tax is not paid, therefore the government loses out on income.
- The informal sector can include illegal activities that are harmful to the community.

- Quality of products and services is not always good.
- Difficult for customers to claim back their money if the product is faulty or if they are dissatisfied with the quality.
- Lots of competition between informal traders selling the same or similar products in the same area.

## 10 Use of technology for marketing

### 10.1 Electronic marketing

Electronic marketing or E-marketing is the use of electronic media to market products or services through the use of the Internet. Using the World Wide Web (WWW) and credit cards make consumers potential internet shoppers (e-shopper).

#### 10.1.1 Online electronic marketing

- Internet. Businesses use the internet, World Wide Web, and a range of electronic technologies such as computers and mobile phones (cell phones, smart phones, i-phones) to advertise online. Many businesses have their own websites to communicate with the public, while others market through the use of emails.
- Social media marketing or social media optimisation (SMO) using social networks such as Facebook and Twitter as an inexpensive method to run marketing campaigns.
- Video marketing using promotional video clips on for example YouTube.
- Blog marketing using web blogs. Businesses post daily or weekly blogs that the public can access.

#### 10.1.2 Offline electronic marketing

- Digital billboards are messages displayed outdoors in public places, such as main roads and highways or on the side of buildings. These can be digital, which means the images are computer generated on large LCD/LED display screens. It is flexible and the message can be changed easily.
- In-store advertising is also called shopper marketing. Digital media such as video screens, digital signage, and shelf talkers are used in stores to advertise products and services.

### 10.2 Foreign marketing

Foreign marketing is marketing to people or businesses outside your own domestic market. No country is self sufficient and has all the raw materials and products that it needs. Countries who produce more goods than they use will export those products to other countries.

#### 10.2.1 Imports

Importing means South African individuals or South African businesses buying goods and services from businesses or individuals in other countries.

#### 10.2.2 Exports

Exporting is when South African individuals or South African businesses sell goods and services to individuals or businesses in other countries. The government provides financial assistance in the form of export subsidies to businesses that show an interest in export, such as tax rebates and a refund on import duties on raw materials or semi-finished goods imported to produce finished goods. Export subsidies mean lower costs for the business and ultimately products can be sold at lower prices abroad.

#### 10.2.3 Alignment of foreign marketing and the production function

The marketing and production functions need to work together to ensure that the right quantities of products are produced at the right quality at the right time and in the right place for the overseas market.

## Systems

Marketing creates a demand for products and once the demand is established the business decide on the quantity and quality to be produced, as well as the production system to use. A production system such as mass production can only be used if there is a stable or continuous demand for a product.

## Planning

The business must establish if exporting to foreign markets will be a profitable venture before considering increasing production and changing production planning.

## Safety

Some foreign countries are very strict about health and safety regulations and will not buy from factories where employees work in unsafe or bad working conditions. Factories will also need to prove that their operations are not polluting and damaging the environment.

## Quality

When exporting, companies may need to adapt or change their products to meet the foreign country safety and security regulations, and other import restrictions. Adjustments to products may be necessary to satisfy the importing country's labelling or packaging requirements.

## Costing

Entering foreign markets could lead to more products being produced and the business then can benefit from economies of scale, which is the cost advantage a business enjoys when it expands. The cost per unit usually decreases, which means products can be sold at a lower price or larger profits can be made.

## End of topic questions

1. What is meant by the term 'marketing'. (8)
- 2 Describe five characteristics of marketing policies. Give examples in your answer. (5)
- 3 Define a trademark. (6)
- 4 Define distribution channels. (6)
5. Debate five examples of sales promotion techniques aimed at consumers. (25)
6. Evaluate five advertising objectives. Give suitable examples. (25)
7. Why is pricing important? (10)
8. Recently Glen Tea added finger puppets to their packets of tea. This type of packaging is an example of:  
A specialty packaging  
B double use packaging  
C combination packaging  
D kaleidoscopic packaging (2)
9. List TWO unethical advertising practices that this company must avoid when advertising their products. (8)
10. Briefly describe THREE requirements of good packing (6)

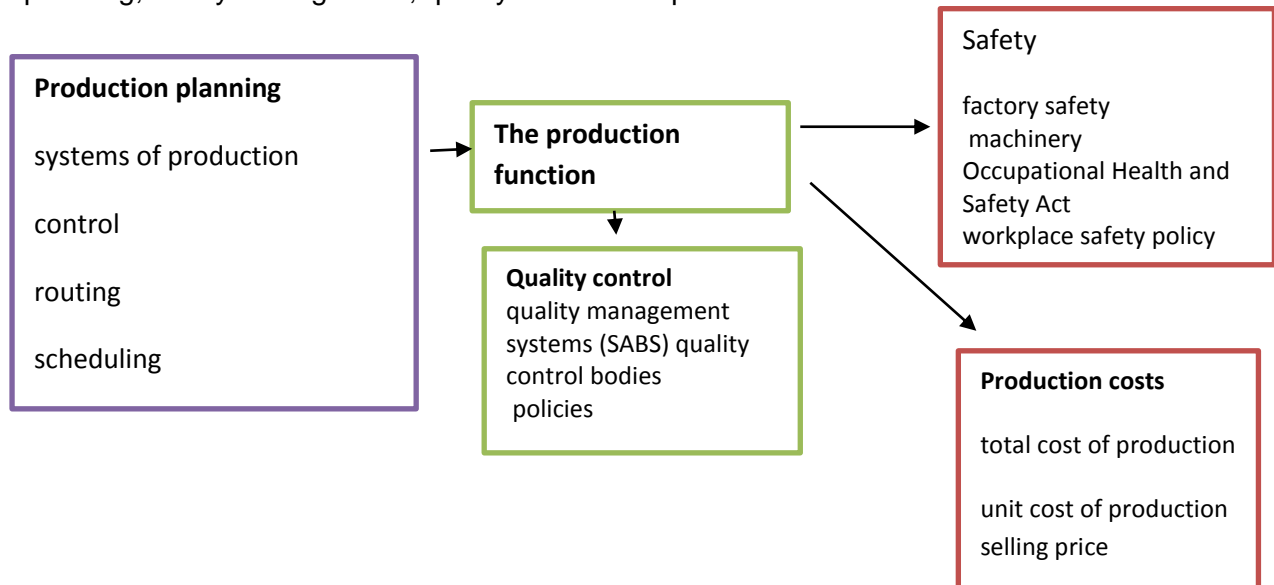
## End of topic answers

1. The marketing function bridges the gaps between the producer or manufacturer and the consumer. Marketing consists of the right product at the price, right price and using the right promotion. (8)
2. Marketing policies must contain detailed research to ensure that the four p's of price, place, product and promotion are correctly addressed. (6)
3. A trademark consists of words, numerals, drawings, signs, symbols, colours or combinations thereof. It identifies the goods or services of the owner of the mark and it provides protection to the owner of the mark by ensuring exclusive rights to use it to identify goods or services, or to authorise another to use it in return for payment. A trademark can be a brand name, a slogan, a logo or a specific shape or a combination of these (3 x 2 = 6)
4. A distribution channel is the route that a product follows from the time it was produced or manufactured until it is sold to the end consumer. (6)
5. Buy-One-Get-One-Free offers such as Clicks, new technological media such as codes on KIT-KAT packaging, free gifts such as some beauty houses, discounted prices such as Mango, Joint promotions such as dishes in fast-food restaurant, free samples such as tasting of food and drink, vouchers and coupons available in newspapers, competitions and prize draws, donations of money such as Woolworth's MySchool card, finance deals such as car manufacturers 0% interest finance (40)
6. Advertising has the objective of informing, persuading, and reminding the target audience to take a specific action. All advertisement must go through the process of attracting attention, holding interest for long enough to stimulate a desire for the product, and finally push the potential consumer to some type of action (plus examples)(25)
7. Pricing is important because the price can cause the success or failure of a product and therefore should be determined correctly so that a profit can be made. The price of an item is determined by how much of the product is sold to customers and the amount of profit made on each product item sold. (10)
8. D (2)
9. Advertising must not mislead consumers by making false claims, or by not disclosing ingredients which might be harmful. Advertising must not be aimed at running down competitors products or by making derogatory statements about a competitor. (2 x 4 = 8)
10. It must be eye catching and attract the immediate attention of the consumer. It must suit the product. It must be suitably designed for the target market, for instance, convenience goods in inexpensive packaging, like milk in a plastic bottle. It must be able to distinguish itself from its competitors. It must support the image the business is trying to create. It must be right for display purposes and meet the requirement of retailers. It must be environmentally responsible. It must protect the contents. It should be easy to distribute, handle, transport and use. (3 x 2 = 6)

# Topic 4 The production Function

## Overview

This topic deals with aspects of the production function: systems including production planning; safety management; quality control and production costs



## 1 Systems

A **production system** is the method by which goods are produced. There are three main production systems: mass, job, and batch.

### 1.1 Mass system

The mass production system produces high volumes of the same product in a continuous flow such as motor cars.

### 1.2. Job system

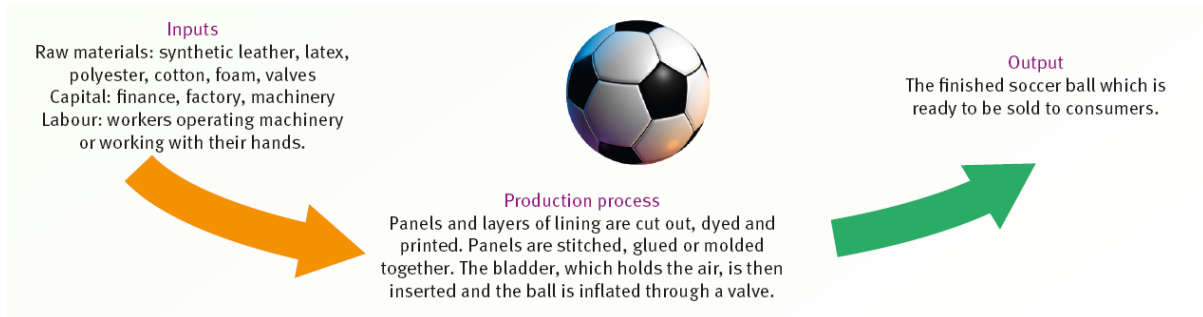
**The job production system** is a production system that businesses use when they produce a once-off job for a specific customer such as an artists' painting.

### 1.3 Batch system

The batch production system is a production system that focuses on making one type of product in one batch before moving on to a batch of another type of product for types of bread in a bakery.

## 2 Production planning and control

Production system of a soccer ball:



Production can be divided into two aspects, planning and control:

- **Production Planning**
  - Planning
  - Routing
  - Scheduling
  - Loading
- **Production control**
  - Dispatching
  - Following up
  - Inspection
  - Corrective planning

**Planning** involves determining which production system – job, batch or mass – will suit your business the best. Thinking through all of the steps in the production system you have chosen to make sure you have the resources you need. Calculating how much it will cost your business to produce the number of goods you need to make a profit, in an appropriate amount of time. Calculating the amount of material, equipment and labour you will need to run the production system successfully.

**Routing** involves planning the route that goods will take through the production process.

**Scheduling** is vital for efficient production and involves making sure that every task in the production process is completed on time.

**Loading** occurs when it is time to assign work to the operators at each station in the production system.



**Production control** involves overseeing all aspects of the production process, from when the raw materials or inputs enter the production system to when they leave as products or outputs.

The production control process starts with **dispatching**, which is giving the production orders for production work to begin at each station.

**Following up** means keeping watch over the production process to make sure that operations are running smoothly.

Keeping watch over the production process allows production controllers to:

- improve processes
- keep the process on schedule
- identify problems with routing
- improve work flow to make it more efficient.

**Quality inspectors** inspect the products that the factory has produced to make sure that they meet the organisation's quality standards.

Some examples of **corrective action** are as follows:

- changing the routing of the production system to make it more efficient
- training operators to increase their skills
- finding the cause of machinery problems and solving them
- sourcing better-quality raw materials or inputs
- revising the production schedule to suit the production environment

### 3 Safety management

General guidelines on factory safety:

1. Factory workers should not go into areas of the factory where they do not work because they may only be aware of the dangers of their own stations, and not of the dangers of other workers' stations.
2. Factory workers must be educated about the country's safety laws and the company's safety regulations.
3. Factory workers should never operate machinery that they are not trained to operate.
4. Factory workers need to know which equipment is dangerous (that contains moving parts such as conveyor belts, blades, saws, or presses, or that operates at high temperatures, or uses an open flame, for example).
5. Factory workers need to wear protective clothing if necessary, such as steel-tipped boots, welding gloves, eye protection, hard hats, high-visibility jackets and ear protection.
6. Businesses must provide this equipment if it is specified in workplace safety laws.

#### 3.1 Machinery and the Occupational Health and Safety Act (OHSA)

South Africa's workplace laws are stated in the Occupational Health and Safety Act (85 of 1993). The Department of Labour says that the Act 'aims to provide for the health and safety of persons at work and for the health and safety of persons in connection with the activities of persons at work and to establish an advisory council for occupational health and safety'.

##### General duties of employers to their employees

- Every employer must provide and maintain a working environment that is safe and does not risk the health of the employees.
- This includes providing and maintaining systems of work, plant and machinery that are safe and do not risk health and taking steps to eliminate or reduce any hazard or potential hazard to the safety or health of employees.
- Ensuring there are no risks to health or safety in connection with the production, processing, use, handling, storage or transport of articles or substances.
- The employer must identify the precautionary measures that need to be taken in order to protect the health and safety of employees
- Providing information, instructions, training and supervision to ensure the health and safety at work of the employees
- Not permitting any employee to do any work unless the precautionary measures have been taken
- Ensuring that all the requirements of the OHSA are met by every employee or any person on the premises under the employer's control where plant or machinery is used
- Ensuring that work performed and that plant or machinery used is under the supervision of a person who is trained to understand the hazards associated with it and who has the authority to ensure that precautionary measures taken by the employer are implemented
- Informing all employees about the scope of their authority.

## 4. Quality control

The SABS is responsible for maintaining South Africa's national standards. These national standards are numbered according to the industry areas they cover. For example, the South African National Standard for timber products is SANS 10005. There are 6 500 of these standards.

A business can apply for a certification called ISO 9000. The ISO 9001 standard details the certification requirements for the following areas:

- the business's overall quality management system
- management's responsibility in the quality control process
- management of resources such as staff
- production processes and products
- measuring and analysing quality
- continual improvement within the business

**Quality management systems** are systems that businesses use to ensure compliance with quality standards.

Philosophies such as **total quality management** have shifted the quality focus in business. Total quality management is a quality philosophy that states that quality is the concern of all employees and business functions in a business, and that quality policies don't stay the same, but are always changing with the business.



An inspector checks a new roll of paper at a paper mill.

## 5 Production costs

There are two kinds of production costs:

- the total cost of production
- the unit cost of production

### 5.1. Total cost of production

*Total cost of production = Fixed costs (FC) + Variable costs (VC)*

**Fixed costs** are the costs of the business that do not change, no matter how many items or units you produce. The costs stay fixed. For example:

- rental for your premises
- staff salaries
- telephone, water and electricity bills
- insurance

**Variable costs** are costs that change according to how many items or units you produce. For example, the cost of materials will increase as production increases.

### 5.2 Unit cost of production

The **unit cost of production** is the amount it costs a business to produce one unit of its product.

*Unit cost of production = Fixed costs (FC) + Variable costs (VC) / Number of units produced*

Suppose your total costs (fixed plus variable) for a month are R2 000. Within that month, you can produce and sell 200 pairs of shoes. Your unit cost of production will then be:

R2 000 / 200

= 10.00

So, it costs you R10.00 to produce one pair of shoes.

### 5.3 Selling price and calculation of profit

*Profit = Total revenue – Total expenses*

if the sales revenue from selling 200 pairs of shoes at R300 a pair is R60 000 and you know that your expenses

(FC + VC) are R2 000. Then:

Profit = Total revenue – Total expenses

= R60 000 – R2 000

= R58 000

#### 5.4 Break-even analysis

**Break-even analysis** is an analysis of how many units you need to sell, at which price, to reach the point where your profits equal your production costs, or your total revenue equals your total costs.

This is called the **break-even point**, and it tells you how many units you need to sell, at which price, to break even.

Breaking even means that you are covering your production costs, but not making a profit. The business, in other words, is neither costing you any money nor making you any money. If you sell below the break-even point you will run at a loss and if you sell above the break-even point you will make a profit.

#### End of topic questions

1. What are the three main kinds of production systems? (3)
2. Define the break-even point. (6)
3. Draw a graph illustrating the break-even point, and write brief notes to describe important points on your graph. (15)
4. Why is it important to have a workplace safety policy? (2)
5. What does the OHSA say about employers' safety responsibilities in the workplace? (2)
6. What is the formula for calculating the unit cost of production. (4)
7. Why is a quality policy important for a business's production function? (5)
8. Describe the function of the SABS. (6)
9. List four steps in production planning. (8)
10. Explain three examples of corrective action. (6)

#### End of topic answers

1. Mass, ✓ batch✓ and Job✓ (3)
2. The point where your profits equal your production costs or your total revenue equals your total costs. (6)
3. To protect the health and safety of employees. ✓✓ (2)

4. A break even analysis diagram shows the total revenue of a firm and the total costs, as additional units are produced. The break-even output can be seen, where profits are equal to costs. below that point a loss is made and above that point a profit is made. (15 for explanation clearly given and 10 for diagram clearly marked.= 25)

5. Employers are responsible for ensuring the correct health and safety procedures are in place. ✓✓ (2)

6. Unit cost of production = Fixed costs (FC) + Variable costs (VC) / Number of units produced ✓✓ (2)

7. To ensure the right quality of production materials are used and also to ensure that products of the right quality are produced. ✓✓✓✓ (5)

8. The SABS is responsible for maintaining South Africa's national standards. ✓✓ These national standards are numbered according to the industry areas they cover. ✓✓ For example, the South African National Standard for timber products is SANS 10005. There are 6 500 of these standards. ✓ (5)

9. Planning ✓✓ Routing ✓✓ Scheduling ✓✓ Loading ✓✓ (8)

10. Changing the routing of the production system to make it more efficient ✓✓ training operators to increase their skills ✓✓ finding the cause of machinery problems and solving them ✓✓ sourcing better-quality raw materials or inputs ✓✓ revising the production schedule to suit the production environment ✓✓ (6)

# Term 4 Introduction

## Topic 1 Team dynamics and conflict management

Topic 1 deals with team dynamics and conflict management. The different stages of team development are discussed, namely forming, storming, norming and performing. Different theories related to team dynamics are explored, such as the Belbin role theory, insights based on Jungian theory, the MTR-I approach, the Margerison-McCann profiles and group consensus. The topic also covers conflict management. Conflict management theories, how they are applied to individuals, workplace forums, strikes and trade unions are discussed, as well as skills to resolve conflict.

## Topic 2 Introduction

Topic 2 introduces you to the activities of the human resource function. It describes the procedures that need to be followed in recruitment, selection and appointment of new staff. These procedures have to be carried out in line with various pieces of legislation, which are summarised in this topic. Personal tax has to be deducted from employees' remuneration, also in line with the relevant government regulations described in this topic. to human resources

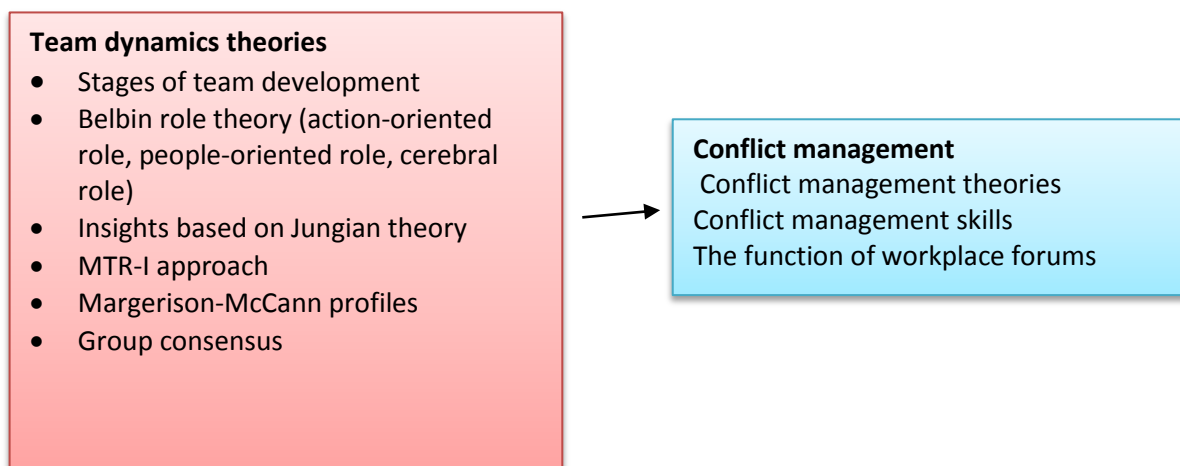


# Topic 1 Team dynamics and Conflict Management

## Overview

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Topic 1 describes various team dynamics theories and discusses their use to analyse specific business-based cases studies.

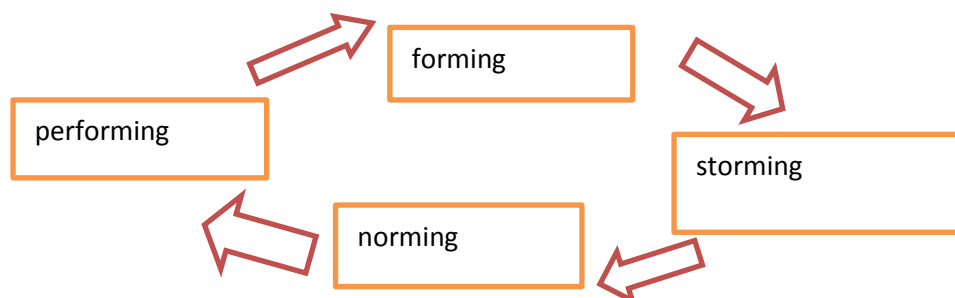


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## 1. Stages of team development theory

When building a team it is necessary that business managers take all aspects related to the development of a team into account.

Dr Bruce Tuckman developed his Forming, Storming, Norming, Performing model in 1965.





### **Forming (Getting to know each other)**

- During the forming stage the team members do not have clarity on the purpose, objectives and aim of the team and the roles they need to play.
- Members test the tolerance of the leader.
- The team members fight for the role they want to play.
- Clarity of purpose is given, but plenty of uncertainties continue.
- There may be power struggles for the position of the team leader.

### **Storming**

- Team members know one another and their true characters start to show.
- They now begin to express their thoughts, ideas and opinions.
- Conflicts and disagreements will arise.
- Tensions will run high and team members may try to assert their power or authority.
- Some teams are able to resolve the storming stage very quickly, but others may never move beyond it and will therefore never be successful.
- Effectiveness of dealing with the storming stage depends on the team leadership and the maturity and experience of team members.

### **Norming**

- Relationships settle down during this stage.
- Team members understand their roles and responsibilities.
- Movement towards group consensus.
- Committed to the same objective and have agreed to certain decisions even if they disagreed personally.
- Individuals have shifted their motivation from personal achievement to team achievement.

### **Performing**

- Team members form agreement and consensus.
- Roles and responsibilities are clear and accepted.
- Team makes big decisions.
- Processes, working style and respect develop.
- Conflict may occur, but commitment and unity are strong.
- Team members are aware of strategies and aims of the team and have direction without interference from the leader.
- Processes and structures are set.
- Leader delegates and oversees.
- Conflict may appear, but is resolved quickly

## 2 Team dynamics theories

There are many different theories to explain team dynamics. These different approaches all have something to contribute when you are trying to understand the interactions between members of a team.

### 2.1 Belbin role theory

The Belbin role theory was developed in the 1970s by Dr Meredith Belbin. A collection of management games was analysed to discover the contributing factors to successful teamwork.

Belbin realised that effective teams are made up of individuals who play nine essential roles.

- **The plant.** These team members come up with new and different ideas. They are the innovators and free thinkers. Plants can see the big picture, but may avoid details.
- **The resource investigator.** Resource investigators are well connected and have excellent networking skills. They are the organisers and they always start a team project with great energy and enthusiasm. Resource investigators also collect ideas from other people and businesses.
- **The co-coordinator.** The co-coordinators are usually the team leaders or chairpersons of the team. They are well organised and focused. They can identify and acknowledge the strengths of others and they delegate work and responsibility well.
- **The shaper.** Shapers are highly motivated and driven to win. They are good at focusing on specific tasks and will often help others to achieve. Shapers will challenge authority and ask difficult questions. They may be aggressive and this can lead to conflict.
- **The monitor evaluator.** Monitor evaluators are fair-minded and unbiased. They observe what is happening in the team dynamics. They often see problems clearly and they make good decisions based on analysis and a broad approach. Monitor evaluators are not good motivators and can be critical and unenthusiastic.
- **The team worker.** Teamworkers are good negotiators and they hold a team together. They listen and help team members understand one another. Teamworkers get important tasks done, but often feel uncomfortable making decisions on their own.
- **The implementer.** Implementers turn ideas into actions. They are disciplined and do what is necessary within deadline. Implementers are dedicated to the team and their objectives and will do the work that other team members avoid. Implementers may resist change, preferring the comfort of established systems and procedures.
- **The completer/finisher.** These team members are perfectionists and take great pride in their work. They are accurate and professional, but may concentrate on unnecessary details and therefore cause conflict. They find it difficult to delegate tasks because they believe that nobody can do it like they can.
- **The specialist.** Specialists develop their skills and knowledge in a specific field. They will be enthusiastic about their knowledge and eager to pass on information. They are very reliable and involved within their area of specialty, work hard and conduct research to solve problems. Specialists may lack interest in anything outside of their narrow field.

## 2.2 Jungian Theory

According to Jung, there are four pairs of opposing values and functions. Every individual prefers one of the values and functions in each pair:

- **Extroverted/Introverted**

Extroverts tend to have an outgoing energy and mix well with others. Introverts have an inward energy and tend to communicate less with others.

- **Sensory/Intuitive**

Sensory people will believe information they receive from the external environment, and they respond well to personal experience. Intuitive people feel things and rely on their internal interpretation of information

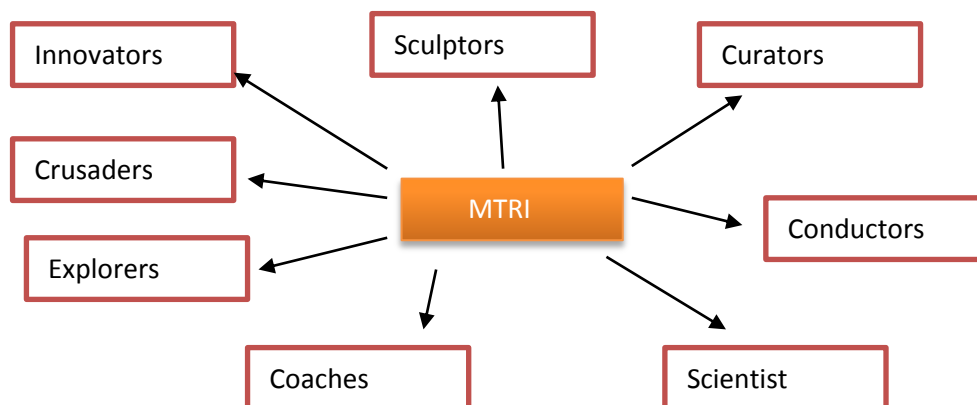
- **Thinking/Feeling**

Thinking people make decisions using logic and reason. They weigh up facts and then make decisions. Feeling people rely in their intuition and base their decisions on emotions.

- **Judging/Perceiving**

Judging individuals tend to have set ideas and plans and they act according to their plans and objectives. Perceiving people, on the other hand, are more adaptable and flexible. They will be more likely to consider alternatives and to adapt as necessary.

## 2.3 MTR-I approach (Management Team Roles Indicator



According to this theory, people are not always doing what is best within a situation. They often are unaware of the impact of their behaviour and are not aware of how their personal preferences affect their view of what is important. The MTR-II identifies the following unique roles of members of a team:

- **Campaigner** – the campaigner will focus on the main aim that has meaning and value. This person looks further than the immediate circumstances and commits with passion.
- **Coach** – the coach creates a positive atmosphere, avoids conflict and inspires others to contribute.
- **Conductor** – the conductor brings structure. Being organised and able to plan are key aspects brought into a team by the conductor. The conductor brings clarity of tasks and roles into the team.

- **Crusader** - the crusader has strong values and convictions. Able to prioritise and guide the team in ethical decisions.
- **Curator** – curators focus on the immediate priority and put thought into tasks. Ideas are questioned and collected to help them find solutions or clarity.
- **Explorer** – explorers like to experiment with innovative and creative ideas to add variety. They challenge the status quo and are positive towards change.
- **Innovator** – Innovators create different, original, creative innovations and could be described either as vague dreamers or focussed visionaries.
- **Scientist** – Scientists create intellectual understanding by using logical theories or mental maps. They do not always find it easy to communicate their intellectual understanding.
- **Sculptor** – The sculptor is the person who will act and is keen to get tasks done. Practical solutions are given and there is a focus on the task at hand.

## 2.4 Margerison-McCann profiles

The Margerison-McCann Team Management profile summarises eight key capabilities required for successful group performance.

### The eight team roles according to the Margerison-McCann theory

- **Explorer-Promoter:** The explorer-promoter is the persuader in the team and sells ideas to the rest. This person likes variety, exciting and stimulating work, gets bored easily, can influence others and is outgoing.
- **Assessor-Developer:** Assessor-Developers break down ideas into manageable chunks. They are objective, develop ideas, enjoy project work and like to experiment.
- **Thruster-Organiser:** The Thruster-Organiser likes to organise and implement ideas. This person is quick to decide, results-oriented and sets up systems.
- **Concluder-Producer:** Concluder-Producers are practical, production oriented and like schedules and plans. They take pride in reproducing goods and services; value effectiveness and efficiency.
- **Controller-Inspector:** The Controller-Inspectors are strong on control, detail oriented and have a low need for people contact. They are inspectors of standards and procedures.
- **Upholder-Maintainer:** Upholder-Maintainers are conservative, loyal and supportive. Personal values are important to them. They have a strong sense of right and wrong. They have motivation to work towards a purpose.
- **Reporter-Advisor:** The Supporter-Advisors support, help others and are tolerant. They are collectors of information and do not like to be rushed. They are knowledgeable and flexible.
- **Creator-Innovator:** The Creator-Innovators use their imagination, are future-oriented and enjoy difficult problems. They are creative and like to do research.

## 2.5 Group consensus

Group consensus means that no one feels misunderstood in group decision making. Team members feel that their views are given a fair hearing. Input and ideas from group members are synthesised to make a final decision that is accepted by the group. Sometimes team members need to work through differences to reach a satisfactory agreement.

For group consensus to work there are certain conditions that must first be met:

- The group must have a common goal.
- There must be a commitment to reach agreement.
- Enough time must be allowed to reach consensus.
- There must be a clear process that the entire group understands.
- There must be good facilitation and active participation by the group.

## 3 Conflict management

Conflict is the serious disagreement between people because of a difference in beliefs, values, morals or opinions. Conflict is part of the work environment. Conflict must not be ignored and must be resolved. When there is a disagreement or a dispute, there are always two or more parties involved.

### 3.1 Causes of conflict in the business

Conflict can be caused by internal factors or external factors. Internal conflict has to do with the personalities and emotions of individuals.

Internal factors within the business may include

- personality clashes
- ego problems and low self esteem
- underlying stress and tension
- differences in values and beliefs
- miscommunication
- perceived breach of faith and trust
- unresolved issues.
- 

External issues that do not include the personalities of the individuals concerned may include:

- poor management
- unfair treatment in the workplace
- unclear job roles
- increase in workload
- inadequate training
- poor communication
- poor work environment
- lack of equal opportunities
- bullying and harassment
- change.

### 3.2 Defining conflict management

Conflict management does not mean that all conflicts are resolved, but they are managed. Conflict in organisations can be positive. It allows employees to be heard, it raises issues that have been ignored and it identifies weaknesses in existing systems and procedures. When conflict is managed properly and resolved constructively, it may lead to a more motivated workforce, improved communications and increased productivity.

### 3.3 Conflict management theories

**Traditional theory** - sees conflict as something destructive and the parties involved in the conflict as troublemakers. The traditional theory considers conflict to be power-based with a clear 'winner' and a clear 'loser'. In South Africa the power basis of conflict is managed through collective bargaining and individual workers are represented by a trade union.

**Modern theory** - sees conflict as something that is unavoidable and necessary in human relations. Conflict is necessary to generate new ideas and to build groups, teams and organisations. This theory views conflict as needs-based and believes that if the needs of all parties are considered, they can arrive at a win-win resolution. In the South African business

environment we follow the modern theory and manage conflict through negotiation, mediation and conciliation. This applies to both individuals and groups.

### **3.4 Conflict management skills**

It is important that managers develop conflict management skills to deal with disputes in the workplace. Disputes can be between the employer and employee, and between the employer and workplace forums. The following skills are needed to manage conflict:

- Be a listener so that all the parties involved can express their point of view.
- Be objective, to form a clear judgement of the situation.
- Exercise the ability to remain calm so that emotions are controlled.

#### **3.4.1 Negotiation**

Negotiation aims to arrive at a compromise to settle a dispute to benefit all parties as much as possible. Communication skills are needed to negotiate appropriately.

#### **3.4.2 Conciliation**

Conciliation is an informal method of solving a dispute. During a dispute a conciliator gives both parties an opportunity to voice their opinions and concerns. The conciliator remains objective and does not make a judgment. The aim is to help the opposing parties to come to an agreement.

#### **3.4.3 Mediation**

Mediation, like conciliation, requires an informal setting to resolve a dispute. The mediator listens to both parties involved. Both parties can be questioned by the mediator to make the reason for the dispute clear. The mediator may reason separately with each party and may make suggestions to resolve the dispute.

#### **3.4.4 Arbitration**

Arbitration is done in a more formal setting, such as a disciplinary hearing in the workplace or in a court of law. The testimony of the parties involved may be recorded. Witnesses may be called in and the parties may be cross examined.

Arbitration is usually done according to the rules of civil procedure. Arbitration could be non-binding or binding, depending on the understanding of the parties involved. If arbitration is non-binding, the parties involved may appeal to a court of law to decide on the outcome.

### **3.5 The functions of workplace forums**

The Labour Relations Act introduced workplace forums to create a powerful tool for collective bargaining, especially in small businesses. A workplace forum ensures that workers have a say in most decisions relating to their working conditions. It provides direct communication with the management.

To create a workplace forum, more than 100 employees have to be employed by the employer. A union can apply to the Commission for Conciliation Mediation and Arbitration (CCMA) for the right to establish a workplace forum. The functions of a workplace forum are:

- to promote the interests of all employees in the workplace
- to promote efficiency in the workplace through co-operation
- to be consulted by an employer and to reach consensus about working conditions
- to participate in decision making related to working conditions.

The differences between a trade union and a workplace forum are:

- A trade union is a juristic (legal) body whereas a workplace forum is not.
- Only a representative trade union can start a workplace forum.
- A trade union negotiates wages and wage-related issues whereas a workplace forum does not deal with wages.
- A workplace forum cannot embark on industrial action, such as strikes, whereas a trade union can.
- Non-union members can belong to a workplace forum.

### End of topic questions

1. Briefly explain the stages for forming teams. (16)
2. a) Identify two theories based on team roles. (2)  
b) Explain what team roles are and why they are important. (3)
3. Differentiate between workplace forums and trade unions (10)
4. List the nine roles in Belbin's theories. (18)
5. Describe four internal issues that cause conflict. (8)
6. Describe four external issues that cause conflict. (8)
7. What is the main function of the Labour Relations Act? (2)
8. Differentiate between mediation and arbitration. (8)

### End of topic answers

1. This theory has four stages.

1.1. The forming stage is about teams getting to know each other. During the forming stage the team members do not have clarity on the purpose, objectives and aim of the team and the roles they need to play. Members test the tolerance of the leader. The team members fight for the role they want to play. Clarity of purpose is given, but plenty of uncertainties continue. There may be power struggles for the position of the team leader. (any two facts = 4)

1.2. Storming stage. Team members know one another and their true characters start to show. They now begin to express their thoughts, ideas and opinions. Conflicts and disagreements will arise. Tensions will run high and team members may try to assert their power or authority. Some teams are able to resolve the storming stage very quickly, but others may never move beyond it and will therefore never be successful. Effectiveness of dealing with the storming stage depends on the team leadership and the maturity and experience of team members. . (any two facts = 4)

1.3. The Norming stage. Relationships settle down during this stage. Team members understand their roles and responsibilities. Movement towards group consensus. Committed to the same objective and have agreed to certain decisions even if they disagreed personally. Individuals have shifted their motivation from personal achievement to team achievement. (any two facts = 4)

1.4. The Performing stage. Team members form agreement and consensus. Roles and responsibilities are clear and accepted. Team makes big decisions. Processes, working style and respect develop. Conflict may occur, but commitment and unity are strong. Team members are aware of strategies and aims of the team and have direction without interference from the leader. Processes and structures are set. Leader delegates and oversees. Conflict may appear, but is resolved quickly (any two facts = 4) (16)

2. Belbin role theory Insights based on Jungian theory MTR-I approach Margerison-McCann profiles Group consensus √√ (2) Understanding team roles is important because it helps us to understand the ways individuals interact in a group and therefore be more likely to create a successful outcome to a team project. √√ (2)(4)

3. A trade union is a juristic (legal) body whereas a workplace forum is not. √√ Only a representative trade union can start a workplace forum. √√ A trade union negotiates wages and wage-related issues whereas a workplace forum does not deal with wages. √√ A workplace forum cannot embark on industrial action, such as strikes, whereas a trade union can. √√ Non-union members can belong to a workplace forum. √√ (5 x 2 = 10)

4. the plant. √√ the resource investigator. √√ the co-coordinator. √√ the shaper. √√ the monitor evaluator. √√ the team worker. √√ the implementer. √√ the completer/finisher. √√ the specialist. (9 x 2 = 18)

5. personality clashes √√ ego problems and low self esteem √√ underlying stress and tension √√ differences in values and beliefs √√ miscommunication √√ perceived breach of faith and trust √√ unresolved issues. √√ (4 x 2 = 8)

6. poor management √√ unfair treatment in the workplace √√ unclear job roles √√ increase in workload √√ inadequate training poor communication √√ poor work environment √√ lack of equal opportunities √√ bullying and harassment √√ change. √√ (4 x 2 = 8)

7. To create a powerful tool for collective bargaining √√ (2)

8. Mediation requires an informal setting to resolve a dispute. The mediator listens to both parties involved. Both parties can be questioned by the mediator to make the reason for the dispute clear. The mediator may reason separately with each party and may make suggestions to resolve the dispute. it is not binding. (4)(2 x 2)

Arbitration is done in a more formal setting, such as a disciplinary hearing in the workplace or in a court of law. The testimony of the parties involved may be recorded. Witnesses may be called in and the parties may be cross examined. Arbitration is usually done according to the rules of civil procedure. Arbitration could be non-binding or binding, depending on the understanding of the parties involved. If arbitration is non-binding, the parties involved may appeal to a court of law to decide on the outcome. (4)(2x 2) (8)

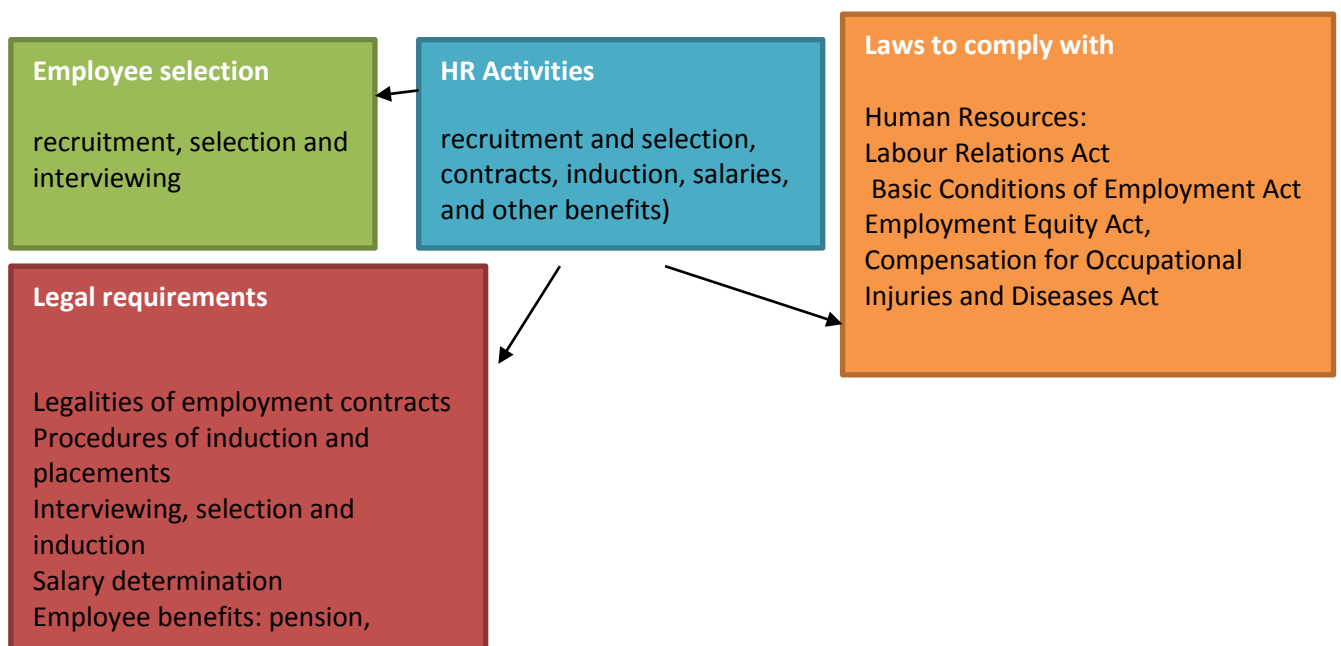


# Topic 2 Introduction to Human Resources

## Overview

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Topic 2 examines the role of the human resources department in a business and the steps and legal requirements involved in recruiting staff



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## 1 Human resources activities

The human resources function is responsible for activities such as recruitment and selection, employee contracts, induction of employees and remuneration of employees.

Human resources are also known as **human capital**.

### 1.1 Recruitment and selection

Recruitment and selection are two important activities carried out by the human resources function. Before these two activities can be carried out, it is important to do human resources planning to identify labour shortages in the business and whether there is a need to employ new employees.

### 1.1.1 Human resources planning

The purpose of human resources planning is to determine how many employees the business needs to operate effectively in the future.

**A job analysis** gathers information on the skills employees need.

**A Job description** includes the title of the job, a summary of what the job involves (various tasks), as well as a description of the requirements of the job.

**Job requirements** are the duties and responsibilities linked to the position, as well as the level of authority of the position in the hierarchy of the business.

**A Job specification** is a description of the requirements of an employee who would be suitable for the job. It includes the necessary qualifications, skills, abilities and experience that the employee needs to be able to perform the job successfully.

### 1.2 Selection

The selection activity involves looking at all the applicants who have applied for a particular position and to choose the best applicant for the job. This will be the applicant who best suits the job specification. The purpose of the selection activity is to appoint the right person for the job. Procedures to follow with selection will be discussed later in this topic.

## **2 Procedures related to human resources activities**

Finding the right employees for the job is known as recruitment.

The human resources function must find the right employees with the right qualifications, skills, abilities and experience (if necessary) to fill identified posts in the business.

### **2.1 Procedures related to recruitment**

#### **2.1.1 Recruitment policy**

Describes the recruitment procedures that the business will follow, including rules and guidelines. These procedures must comply with prescribed legislation to ensure fair labour practice, free from discrimination, as well as the implementation of affirmative action, employment equity, Black Economic Empowerment (BEE) and Broad Based Black Economic Empowerment (BBBEE), where necessary.

#### **2.1.2 Place of recruitment**

Recruiting new employees from within the business is called **internal recruiting** and occurs if jobs can be filled through promotion or transfer.

Recruiting new employees from outside the business called **external recruiting**.

#### **2.1.3 Recruitment methods**

The human resources department can use one, or a combination of, the following methods:

- advertisements in the media (newspapers, radio, internet websites or social networking site)
- business newsletters, notice boards, bulletins or verbal announcements
- consultants
- employment agencies or consultants
- recommendations or referrals from existing staff
- educational institutions, communicating job opportunities to students
- headhunting, where suitably qualified, skilled and competent people are approached to apply for a position
- walk-in applicants who come to the business to apply for a job whether or not the job has been advertised.

### **2.2 Procedures relating to selection and interviewing**

The following procedures are usually followed when selecting the most appropriate person for the job.

#### **2.2.1 Receiving documentation**

Applicants are asked to submit an application form or a letter of application together with a Curriculum Vitae (CV), certified personal documentation and proof of qualifications.

There is usually a closing date for application.

After the closing date a list of all the applicants is drawn up.

#### **2.2.2 Screening**

The human resources manager will check applications and their CVs against the requirements of the job. Those applicants who do not meet the minimum requirements as stipulated in the advertisement are eliminated. They will get informed that their application was unsuccessful. The rest of the candidates who meet the minimum requirements continue to the next step.

### 2.2.3 Evaluation of CV and creating a short list

The CVs of the applicants who meet the minimum requirements for the vacant post will be evaluated. After the evaluation, the human resources manager will rank the applicants from most suitable to least suitable. The best candidates with the highest rank order are placed on a **short list** and unsuitable candidates are eliminated.

### 2.2.4 Check information supplied in CV

Information in each CV should be confirmed to check that it is true. This includes checking up on qualifications and employment history. The human resources manager will also contact the **referees** given in the CV to verify the CV and learn more about the applicant.

### 2.2.5 Conducting the interview

An **interview** is a formal meeting between the candidate (interviewee) and the employer (interviewer).

The purpose of the interview is to get more information about the candidate by asking questions and to evaluate the candidate further.

### 2.2.6 Assessments

These tests can be split between personality tests and aptitude or ability tests. The aim of personality tests is to determine personality characteristics.

The aim of aptitude tests is to determine intellectual performance and skills.

Medical examinations can also form part of the assessments.

### 2.2.7 Letter of appointment

Once the most suitable candidate has been chosen, a written offer of employment must be made to the successful candidate. Once the chosen candidate has accepted the appointment (in writing), the employment contract needs to be signed.

### 2.2.8 Remuneration (salaries and other benefits)

Remuneration is money paid to an employee for work done. A remuneration package will include a salary or wages as well as additional benefits. Salaries usually are paid to qualified or skilled workers while unskilled workers often receive wages as payment.

**Salaries** are a fixed payment to an employee for work done and is paid once a month.

**Wages** are usually a weekly payment to an employee for work done but can also be paid daily, weekly or monthly. A worker's wage can be a fixed payment or it can be calculated according to the number of hours worked or the amount of work done.

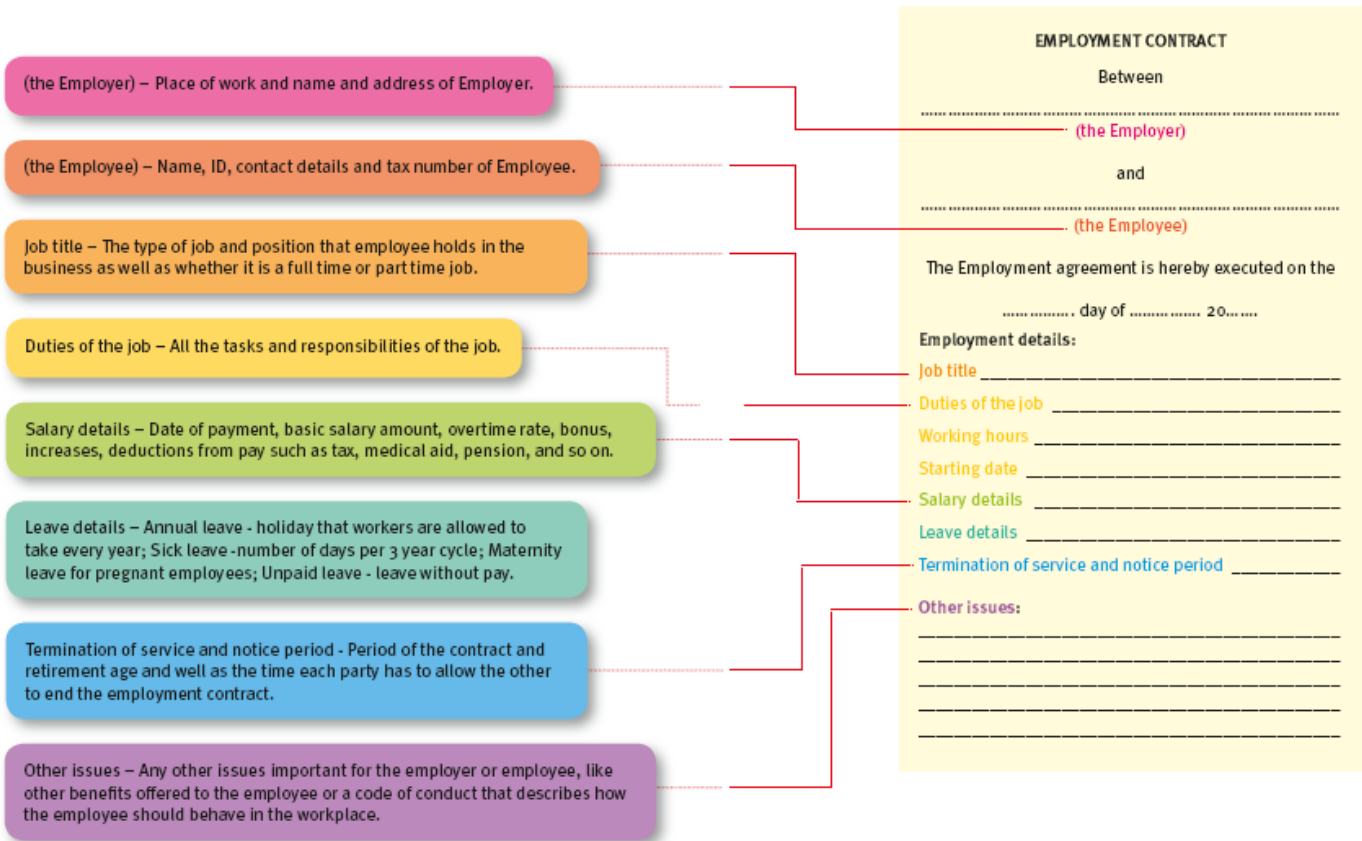
Employee benefits, sometimes called fringe benefits or perks, are rewards to employees in addition to a basic salary or wage and can include:

- health and life insurance
- medical aid
- pension fund
- car allowance
- bonus
- profit sharing
- employee services such as the employer paying for relocation expenses
- financial and legal services
- childcare programme

- housing subsidy.

Compulsory benefits are set out by law and they are:

- insurance for unemployment
- development of skills
- payment for work-related injuries and diseases.



### 3 Legislation

The human resources department must make sure that the enterprise complies with all the laws concerning the workplace.

#### 3.1 Labour Relations Act (LRA) 66 of 1995

The Labour Relations Act governs labour relations in South Africa. It is based on the South African Constitution. The Act provides:

- a legal framework that promotes and facilitates collective bargaining
- information on how to handle labour disputes and encourages the establishment of workplace forums
- procedures to follow for industrial action such as strikes, lockouts, picketing and go-slows.

The Commission for Conciliation Mediation and Arbitration (CCMA), the Labour Court and the Labour Appeal Court are established to deal with matters arising from this Act.

#### 3.2 Basic Conditions of Employment Act (BCEA) 75 of 1997

The Basic Conditions of Employment Act applies to all employees and employers, except members of the South African National Defence Force, the National Intelligence Agency and South African Secret Service.

Act is designed to improve the working conditions of employees. Issues such as minimum payment, maximum working hours, minimum leave, deductions from salaries or wages, and minimum period of notice for ending the contract are some important issues covered by the BCEA. By law a copy of the BCEA must be put up in the workplace and be visible for all to see. Some important issues in the Act are:

- **Working hours** – maximum of 45 hours per week. This can either be a maximum of 9 hours if you work 5 days a week or a maximum of 8 hours per day if you work 6 days a week. Child labour and forced labour are illegal.
- **Overtime** – maximum of 3 hours a day or 10 hours a week. Payment should be one and a half times normal salary or wage rate or an equal amount of paid leave. If a worker works on a public holiday that falls on a working day the overtime rate is double the normal rate.
- **Leave** – 21 days paid leave per year and the employer must agree to when this leave is taken. Sick leave is 30 days paid leave per three-year cycle. Maternity leave is 4 consecutive months and family responsibility leave for illness or death in the family is three days a year.
- **Termination of service or notice period** – an employee must give a month's notice if they have worked for a year or longer. If the employee has worked for less than a year, 2 weeks' notice must be given and only 1 week's notice if they have worked for less than a month.

#### 3.3 Employment Equity Act (EEA) 55 of 1998

The Employment Equity Act ensures equity for all in the workplace. The Act prohibits unfair discrimination in the workplace. This includes unfair discrimination against employees or job applicants on the grounds of race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, skin colour, sexual orientation, age, disability, religion, belief, culture, language, political opinion or HIV status.

The Act further requires designated employers to implement affirmative action measures to progress historically disadvantaged individuals from specific designated groups of people. (African, Indian and Coloured people, women and people with disabilities).

### **3.4 Compensation for Occupational Injuries and Diseases Act (COIDA) 61 of 1997**

The Compensation for Occupational Injuries and Diseases Act prescribes laws for the compensation of employees who are disabled or to their family if an employee dies from injuries sustained or diseases contracted at work.

Employers are required to pay for compensation on behalf of their employees.

Employers are protected against claims if employees are injured at work. Employees who are injured at work can claim compensation for temporary or permanent disability. The dependants can claim compensation if an employee dies as a result of injury at work.

### **3.5 Implementation of legislation**

#### **3.5.1 Legalities of employment contracts**

The employment contract is a legal document that must be signed by both the employer and the employee. The employer and the employee must obey the law as laid down by the BCEA. The employer is not allowed to offer the employee less than what the BCEA stipulates.

By law, an employee must be given a contract within two months of starting a job. This contract can be renegotiated later if both parties wish to do so. An employment contract must contain:

- the name and address of the employer
- the name, I.D and contact details of the employee
- the duties of the job
- the conditions of employment
- the salary offered
- the code of conduct
- any other relevant information such as leave details

A contract of employment can be terminated for the following reasons:

- **resignation:** if employees decide to resign from their job, they must hand in a written letter of notice stating their intention to leave. They must make sure that they give the correct amount of notice before they resign.
- **retirement:** women can retire at 60 and men at 65 in South Africa. Sometimes people prefer to work longer. The LRA stipulates that no one may be discriminated against on the grounds of age.
- **redundancy:** if a business no longer has enough work for its employees or is restructuring, it may decide to make certain workers redundant. If a firm retrenches workers it must pay them redundancy pay, based on how many years they have been with the company, and they may not immediately refill the position. Workers made redundant are entitled to collect unemployment money from the Unemployment Insurance Fund.
- **dismissal:** there are laws on the procedures for dismissing (firing) workers. Workers must be given verbal and written warnings and a chance to improve their performance before finally being dismissed. Workers can be dismissed for theft, bad conduct and inability to perform the job they were hired for.

## 4 Procedures of induction and placement

After the chosen candidate has signed the letter of appointment and employment contract, the candidate is placed in the position applied for.

The chosen candidate must be given the place, date and time when to begin work. The employer needs to give the employee all the necessary resources, for example, an office, equipment, furniture and stationery. At this time, it is important that new employee goes through the process of induction.

The induction programme could include the following procedures:

- welcoming the new employee and introducing fellow employees and supervisors or managers
- describing the organisational structure in the business and how the job fits into the organisational structure
- describing the organisational culture and code of conduct in the workplace, and other business policies
- showing the new employee around the business as well as the individual place of work
- appointing an experienced colleague to work alongside the new employee and assisting the new employee with questions and queries about the work. It is important for the human resources manager to follow up on the success of the induction and to get feedback on the progress of the new employee.

### 4.1 Interviewing, selection and induction

The human resources department must make sure that there is no discrimination when carrying out the process of interviewing, selection and induction, as prescribed by the EEA and the LRA.

Labour unions and workplace forums can form part of this process to ensure transparency and fairness. It is also important that a standardised set of criteria is used to assess and evaluate all candidates.

During the selection process, employers must ensure that they keep in mind affirmative action and employment equity targets as stipulated in the EEA. This means that the most suitable candidate might not necessarily be the one with the highest ranking in the selection process.

### 4.2 Salary determination Piecemeal and time-related systems

Remuneration can be determined according to either the piece-meal system (also called the piece-work system) or the time-related system.

A **piece-meal system** will pay employees for the number of items (pieces) produced and not for the total hours worked, regardless of how long it takes to make an item. It is used in many factories and is especially popular in the textile and technology industries.

Most businesses use the **time-related system**. Remuneration is determined on the basis of the number of hours worked. The maximum number of hours is prescribed by the BCEA. Employees also have to consider the minimum rate per hour stipulated by the BCEA.

In the private sector, remuneration packages are often negotiated. The business offers a remuneration package and, if the new employee is not satisfied, the parties enter into negotiations until they reach an agreement

#### 4.2.1 Personal tax

Income tax is money paid to the government from a salary or wages. Income tax is paid against the total remuneration package. If an employee earns more than a prescribed amount, the employer must deduct tax from the employee's remuneration by law.



The amount of tax an employee pays depends on the amount earned, the age of the employee (if they are under or over 65) and if they are a member of a pension fund or save towards a retirement annuity fund. The tax deducted has to be paid to SARS within seven days after the end of the week or month in which it was deducted.

There are two main types of tax that are deducted from employees' remuneration:

- **Standard income tax on employees (SITE)** is a form of employee's tax that is calculated only on a net remuneration of more than R27 000 and up to R60 000 in 2011/2012 (this amount can change every year) for the tax period (12 months).
- When an employee earns more than R60 000 a year, employee's tax called **Pay-As-You-Earn (PAYE)** is deducted. PAYE is a progressive tax system, which means the more an employee earns, the more tax has to be paid.

#### **4.2.2 Basic conditions of employment**

The BCEA needs to be considered in terms of the minimum salary or wage rate and overtime rate when determining salaries and wages. Employers must keep records of every employee, which should include the time worked and remuneration paid. The employer must give each employee a salary advice or pay slip that shows the basic salary or wage (before deductions), deductions and net salary or wage (after deductions).

#### **4.2.3 Pension fund and medical aid**

A pension fund is a plan that provides members with an income when they reach retirement. Membership of a business's pension fund is usually only for permanent workers. Monthly contributions are calculated as a fixed percentage of the employee's gross salary. A medical aid fund or scheme is a pool of funds members can draw on and use for their health expenses.

The BCEA stipulates that employees may not deduct any money that has not been agreed upon by the employee.

#### **4.2.4 Unemployment insurance**

The government has created the Unemployment Insurance Fund (UIF) to offer insurance to people who find themselves unemployed. There is a compulsory contribution by employees and employers towards this fund. Employees who become unemployed can then draw money from this fund while trying to find new work.

The contribution that employers must deduct from a worker's pay is 1% of the worker's total earnings and the employer also contributes an equivalent 1% for every worker that is employed.

#### **4.2.5 Skills development**

Businesses are required to pay the equivalent of 1% of an employee's gross salary to the Skills Development Fund. The business has to register with SARS for the skills development levy. The aim of the Skills Development Act 97 of 1998 is to use the work place as a place of learning, improve the level of education through good training programmes and to improve employment opportunities. If the business sends employees on registered training courses, the business may claim back some of the costs from the Skills Development Fund.

#### **4.2.6 Payslip information:**

- employer's name and address
- worker's name and job
- period of payment
- worker's pay
- SITE, PAYE and UIF deductions and the amount and purpose of any other deductions made
- actual amount paid to the worker.

## End of topic questions

1. Would you expect to find a summary of the work history of a prospective employee on a
  - a) CV
  - b) job advertisement
  - c) job description.
- 2 Which of the following is NOT included in the selection process?
  - a) short-listing
  - b) interviewing
  - c) induction.
3. What is the name of the sessions given to new workers when they first start work?
  - a) induction
  - b) staff appraisal
  - c) retrenchment. (6)
4. What information must be given with a payslip? (6)
5. The HR manager of a local firm has asked your advice on employing a new female member of staff who is also pregnant. Write a short note explaining the legal requirements that she must be aware of. (8)
6. What is the main purpose of COIDA? (8)
7. Briefly explain what information should be included in a written contract of employment to be signed by an employer and an employee. (12)
8. Explain four responsibilities of the HR department. (8)
9. Briefly discuss the regulations contained in the Basic Conditions of Employment Act. (30)

## End of topic answers

1. a√√
- 2 c√√
- 3 a √√ (2 x 2 = 6)
4. basic salary or wage (before deductions), √√ deductions√√ and net salary or wage (after deductions). √√ (6)

5. She cannot be forced to leave her job should she be employed. Maternity leave is 4 consecutive months according to the BCEA. She must also work in conditions that are not detrimental to her health according to COIDA. (8)

6. compensation of employees who are disabled or to their family if an employee dies from injuries sustained or diseases contracted at work. regulations concerning safety and working conditions. (8)

7. An employment contract is a legally binding document between the employer and the employee and must contain: the conditions of employment, the salary offered, the code of conduct, any other relevant information. (8)

8. Recruitment, selection, compliance with legal requirements, training. (8)

9. The Basic Conditions of Employment Act applies to all employees and employers, except members of the South African National Defence Force, the National Intelligence Agency and South African Secret Service.

Act is designed to improve the working conditions of employees. Issues such as minimum payment, maximum working hours, minimum leave, deductions from salaries or wages, and minimum period of notice for ending the contract are some important issues covered by the BCEA. By law a copy of the BCEA must be put up in the workplace and be visible for all to see. Some important issues in the Act are:

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**Overtime** – maximum of 3 hours a day or 10 hours a week. Payment should be one and a half times normal salary or wage rate or an equal amount of paid leave. If a worker works on a public holiday that falls on a working day the overtime rate is double the normal rate.

**Leave** – 21 days paid leave per year and the employer must agree to when this leave is taken. Sick leave is 30 days paid leave per three-year cycle. Maternity leave is 4 consecutive months and family responsibility leave for illness or death in the family is three days a year.

**Termination of service or notice period** – an employee must give a month's notice if they have worked for a year or longer. If the employee has worked for less than a year, 2 weeks' notice must be given and only 1 week's notice if they have worked for less than a month.

(30)

# BUSINESS STUDIES 11 END-OF-YEAR EXAMINATION

**TIME: 3 HOUR MARKS: 300**

## Instructions and Information

Read the following instructions carefully before answering the questions:

This test paper consists of THREE sections, SECTION A, SECTION B and SECTION C.

SECTION A: Compulsory for all learners

SECTION B: Answer any THREE of the five questions that cover all the work done during this year (in paragraph style).

SECTION C: Answer any TWO of the four questions that cover all the work done during this year (in paragraph style).

Consider the time allocation when answering the questions (you may use the table below as a guideline for marks and time allocation for each question).

Read the instructions for each question carefully and answer only what is required.

Number your answers correctly according to the numbering system used in this question paper.

Except where other instructions are given, answers must be written in full sentences.

The mark allocation and the nature of the question should determine the length of your answers.

Start the answer to each new question on a new page in your answer book.

Section A (40)

Section B 180 (3 x 60)

Section C 80 (2 x 40)

### SECTION A: COMPULSORY

#### Question 1 Answer all parts

1.1 Multiple choice, mark only the correct answer, A, B, C or D on your answer sheet.

1.1.1. The marketing function of Greens cars (Pty) Ltd would belong to the .....environment?

A. micro

B market

C business

D macro

1.1.2. Suppliers from part of the ..... environment.

A micro

B market

C business

D macro

1.1.3. Which of the following is not a characteristic of an entrepreneur?

A style of leadership

B need for achievement

C focus of control

D ability to problem solve

1.1.4. Which of the following would you regard as an ethical business practice?

A Price fixing between cell phone service providers

B Competitors making an agreement regarding government tenders

C Banks charging fixed service charges

D Charging the same prices for goods in urban and rural areas

1.1.5. Which of the following must be included in a salary advice:

A PAYE deductions

B Bank service charges

C Cell phone details

D name of next of kin

1.1.6. Which of the following revents unfair discrimination against employees in the workplace?

A The Employment Equity Act

B BBEEE

C Basic Coniditon of Employment Act

D The Skills Development Act

1.1.7. A SWOT diagram includes

A Strengths, weaknesses, opportunitites and threats to a business

B Support, weaknesses, opportunities and threats to a business

C Strengths, weaknesses, opposition and threats to a business

D Strengths, weaknesses, opportunities and threats to a business

1.1.8. Wholesalers who use the internet to purchase goods from an organic food producer would be part of the food producers' ..... environment.

A technological

B market

C macro

D micro

1.1.9. Which of the following is not a factor to consider when deciding on the best form of ownership for a business:

A Legal personality

B Taxation

C Degree of control

D Geographical location

1.1.10. Which of the following is an advantage of personal selling

A demonstrations are possible

B less knowledge of the product is needed

C sales message can always be the same

D Pressure can be brought to bear on the customer  
(10 x 2 = 20)

1.2 Provide a word/term that describes each of the following:

1.2.1 The name of an organisation that protects and promotes the interest of individuals or groups of workers.

1.2.2 The business environment that deals with problems relating to production methods.

1.2.3 A group of individuals or organizations who voluntarily exchange information.

1.2.4 A form of ownership in which 2-20 people agree to work together without forming a legal entity.

1.2.5 Actions in the workplace which are linked to what is acceptable to the people who work with the organization.  
(5x2=10)

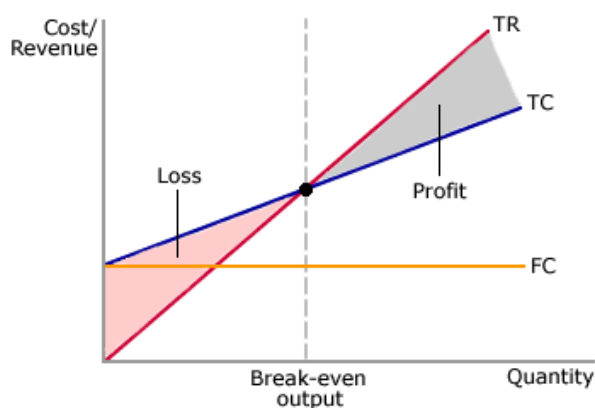
1.1 Choose a term from COLUMN B that matches the description in COLUMN A. Write only the letter (A-E) next to the question number on the answer sheet.

COLUMN A	COLUMN B
1.3.1 The off loading of goods in another country at low prices	A. Exchange controls
1.3.2 Taxes or custom duties charged on imported goods.	B. Dumping
1.3.3 Financial assistance towards the cost of locally produced products to enable them to be sold at a lower price abroad.	C. Multinational
1.1.4 Restrictions by a country on the availability of foreign currency to importers.	D. Subsidies
1.1.5 A company that operates globally.	E. Tariffs

(5x2=10)[40]

**SECTION B: ANSWER ANY THREE OF FIVE QUESTIONS**

QUESTION 2. Look at the graph below.



2.1. Define the following:

2.1.1 break-even point

(2)

2.1.2 total costs

(2)

2.1.3 income

(2)

2.2. What are break-even graphs used for?

(6)

2.3. Give 2 examples, each, of the following:

2.3.1 fixed costs (4)

2.3.2 variable costs (4)

2.4. Name and describe five strategies that the partners of an advertising agency could apply internally when threats or opportunities occur in the external environment. In your explanation use examples linked to the advertising industry. (20)

2.5. Discuss the three components that contribute towards the future vision of a business. (12)

2.6. What is meant by the term "dumping" and why does it present a problem to businesses in South Africa? (4)

2.7. Why is it important for businesses to be aware of current technology? (4)[60]

### QUESTION 3

Nestle is an international company with a wide variety of products on sale to the public. They constantly test new products to add to their existing range and discontinue products that are no longer selling well

3.1. Define the product policy. (4)

3.2. Discuss the product mix in detail and give examples. (12)

3.3. When deciding on a product, what are the main features that need to be considered? (6)

3.4. Draw a graph and explain the meaning of the term 'the life cycle' of a product. (20)

3.5. Give a basic description of what marketing activities entail. (10)

3.6. Discuss difference between business ethics and personal ethics and give examples (8)[60]



## QUESTION 4

Fashion House (Pty)Ltd has been making clothes for over 30 years and it prides itself on producing clothes that set trends rather than following them. It has a large factory based in the centre of Cape Town. However, recently, the company has been facing a growing number of problems. It sells its clothes to shops all over South Africa and over recent years it has faced increased competition, particularly from Chinese businesses. Chinese businesses are able to produce clothes at a lower cost as they pay their staff lower wages.

Section Managers have also voiced concerns:

The accounts manager has stated that the company is facing liquidity problems, after analysing the company's accounts.

The marketing manager believes that he must be given a larger budget so he can improve Fashion Houses' marketing mix.

The Operations Manager believes that too much space is being wasted in the factory due to the large amounts of raw materials that are held. She also points out that the morale of her staff is low as they have heard rumours from staff in different departments and fear for the future of the business.

Fashion House have looked at the possibility of producing an exclusive brand range of high quality clothing, in order to boost profits, but some managers have voiced concern about whether its workers had the skills to produce such clothes.

Fashion House managers have been called together to assess the situation, discuss the future of the business and put forward recommendations to resolve these problems faced.

- 4.1. Explain briefly the problem of dumping as a macroeconomic challenge. (4)
- 4.2. Define what is meant by liquidity and state which sector of the environment it falls into. (2)
- 4.3. How will the liquidity problem impact on the marketing manager's request for a larger budget? (4)
- 4.4. Write a brief report from the human resources manager, recommending methods of increasing the skills levels of workers and increasing morale. (30)
- 4.5. What is a market segment and what is this based on? (10)
- 4.6. List three different classes of goods. (6)
- 4.7. What is the meaning of the term 'marketing mix'? (4) [60]

## QUESTION 5

In order to survive in the twenty first century, businesses must make use of modern planning techniques such as Delphi, as well as involving staff in creating effective solutions to problems and behaving in an ethical and responsible manner.

- 5.1 What is the Delphi technique? (4)
- 5.2. Give 3 advantages of using the Delphi technique and 2 disadvantages of using this technique. (10)
- 5.3. List the steps involved in the Delphi technique and explain each one briefly. (14)
- 5.4. What does integrity mean to you? (6)
- 5.5. Define brainstorming and write down the 8 steps in this process. (10)
- 5.6. Explain the term ethics. (6)
- 5.7. How could you ensure ethical behaviour within your business? (10)[60]

#### Question 6

#### **VACANCY FOR A DYNAMIC SALES MANAGER**

##### **Requirements:**

- A 3-year diploma in Marketing Management
  - Minimum of 4 years' experience
- Computer literate in MS Office and MS Excel

##### **Personal skills/Attributes:**

- Team worker
- Good communication skills
- Good motivational and dispute resolution skills
  - Goal oriented and reliable

##### **Remuneration:**

- Basic salary plus fringe benefits

Applications including a comprehensive CV should be forwarded to:

The HR Manager via email at goodsales@mzt.co.za

Contact details: 0814972345 or 021-3713457

You are the HR manager of the company that advertised the vacancy above. You have the task of appointing the most suitable candidate for this vacancy. Write an essay explaining the employment process which you would follow to find the most suitable candidate.

Use the following headings and sub-headings in your essay:

(a) The selection process:

- Preliminary selection interview (4 × 2 = 8)
- Selection tests (3 × 2 = 6)
- Medical examination (2 × 2 = 4)
- Verify references (2 × 2 = 4)
- Final interview and final choice (7 × 2 = 14)
- Final offer and appointment (4 × 2 = 8)

(b) Placement and incorporation:

- Placement (2 × 2 = 4)
- Orientation (3 × 2 = 6)
- Induction (3 × 2 = 6)

[60]

**SECTION C (ESSAY TYPE QUESTIONS) ANSWER ANY TWO QUESTIONS.**

**QUESTION 7**

The children's section of a clothing factory is performing badly. They waste time arguing about the best strategies to apply and everybody wants to be the leader. They are unproductive and are very negative. The manager is struggling to get this team to function as a unit.

Advise the management on how to manage the team dynamics constructively and elaborate on the stages of team development.

[40]

**QUESTION 8**

**1**



Gina White from Bloemfontein is the proud owner of Gina's Shoe store. She started on her own with one small store three years ago and today runs a chain of ten stores. Today she is a successful businesswoman.

Discuss the significant characteristics of a highly successful entrepreneur.

[40]

**QUESTION 9.**

Read the scenario that follows and then complete the instructions

**A taste of South Africa**

It is an enormous challenge to start a guest house which will attract overseas visitors. This is what Nombeka Khumalo did when she started a guest house near Tswane. Her research had shown her that tourists wanted to experience the true cuisine of our country. She used her previous experience as a cook and entrepreneur and added the Nombeka Traditional Cooking School to her guest house. Here she offers a variety of cooking courses, teaching traditional recipes of the seTswana, iNdebele, iZulu and XiVenda tribes. She now employs 15 full-time staff to run the guest house and to assist in the cooking school and has taken on two partners.

- 9.1. Define the macro business environment. (4)
- 9.2. Draw a diagram to illustrate the areas in the macro environment. (8)
- 9.3. Name 2 institutions that are available to small business owners who provide financial support for entrepreneurs. Also, give 2 main functions of these institutions. (8)
- 9.4. Name and explain 2 important roles played by small business in the economy. (8)
- 9.5. Define non renewable resources. (6)
- 9.6. Briefly, explain primary, secondary and tertiary industries. (6)
- [40]

#### QUESTION 10

Starbucks Corporation is a very profitable organisation earning in excess of 600 million us dollars in 2004. It is a global coffee brand built upon a reputation for fine products and services and it has almost 9000 cafes in almost 40 countries. Starbucks also owns the Seattle Coffee Company, which is in South Africa and which has franchise opportunities.

Joe Modise is considering buying a Seattle coffee franchise because he believes it will do well in the area in which he lives. If he does so, he will have to lease some of his equipment to start with as he will not have enough capital to buy it. He will also consider outsourcing some tasks such as cleaning.

Advise Joe on the different aspects of buying a franchise. Your report should include the following:

- 10.1.1 A definition of franchising. (4)
- 10.1.2 What must be concluded in a franchise contract (8)
- 10.1.4 The advantages and disadvantages of buying a franchise (14)
- 10.1.5 The meaning of FASA (4)
- 10.2. Explain what is meant by 'outsourcing' and how leasing some equipment might help him. (10) [40]

**Total: 300**

## BUSINESS STUDIES GRADE 11 END OF YEAR EXAM MARKING MEMORANDUM

### QUESTION 1

1.1.1 B

1.1.2 B

1.1.3 C

1.1.4 D

1.1.5 A

1.1.6 A

1.1.7 A

1.1.8 B

1.1.9 D

1.1.10 A

1.2.1 trade Union

1.2.2 micro

1.2.3 business community

1.2.4 partnership

1.2.5 industrial action

1.3.1 B

1.3.2 E

1.3.3 D

1.3.4 A

1.3.5 E

[30]

### QUESTION 2

2.1.1 Where total revenue is equal to total costs.

(2)

2.1.2 Total costs = variable + fixed costs.

(2)

2.1.3 Total revenue received by a business from sales plus any interest or other income.

(2)

2.2 To be able to determine the minimum selling price of a produce, √√ to determine the minimum quantity which must be produced to make a profit, √√ to determine whether the business is in a profit or loss situation. √√ (6)

2.3.1 Rent, office staff salaries, repayments on mortgages or other loans √√√√ (4)

2.3.2 Electricity, hourly paid workers, production materials √√√√ (4)

2.4 Obtain and manage information Strategic planning and action Mergers, Acquisitions and Alliances

Organisational design Direct influence Social responsibility Lobbying Networking Power relations

(5 x

4 plus example = 20)

2.5. Core values, core purpose, mission.

(4 x 3

= 12)

2.6. The flooding of the local market with goods from an overseas company at a lower price than locally produced goods, √√ which threatens to put local firms out of business. √√ (4)

2.7. Because changes in technology can give competitors an edge and because improvements in technology change production processes. √√√√

(4) [60]

### QUESTION 3

3.1 Product policy includes the choice of products, design of products, packaging and the use of trademarks and brand names. √√√√

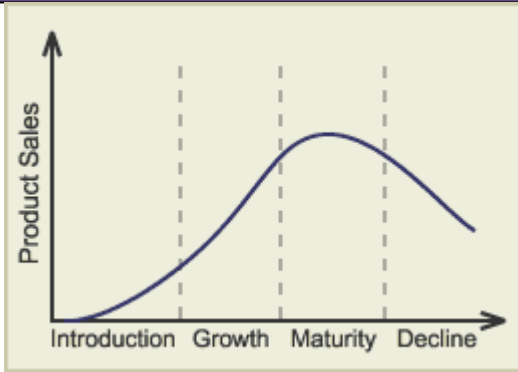
(4)

3.2 The product mix is the combination and types of products made by a business, for example the firm may make a combination of complimentary products, such as pepper and salt, or a variety of products lines such as Nestle which makes not only chocolate but also cereals and baby foods. other firms may make a series of similar items such as varieties of cars. (12)

3.3 Profitability, √√ production possibilities, √√ reactions of consumers. √√

(3 x 2 = 6)

3.4



QuickMBA.com (4)

### Start-up (introductory) phase

The business wants to create product awareness and to develop a market for the product. Sales will be low because the business has to create a demand for the product as customers are not aware of it or do not know it well enough

### Growth phase

The business wants to build brand preference and to increase market share. Sales increase as more customers become aware of the product and the business is more profitable.

### Mature phase

Maturity phase is the most profitable. The primary objective at this point is to defend the market share and to maximise profits.

### Decline phase

Sales decrease as the market becomes saturated. At this phase the business can do the following:

- add new features and find new uses for the product
- reduce costs to offer the product at lower price
- discontinue the product. (4 x 4)

(20)

3.5 Business ethics are those that affect a business such as financial transparency, ethical advertising and personal ethics are those of the individual such as honesty and integrity. (4 x 2 = 8)[60]

## QUESTION 4

4.1. Dumping threatens local businesses who lose sales and may go out of business. (4)

4.2. Liquidity is the ability of the business to pay its debts and it is micro economic. (2)

4.3. It will be difficult to provide for the additional money required, his request will be refused. (4)

4.4 In house training, workshops, external courses, skills linked pay increases or other incentives. Increased morale through affirmation for good work, open communication, team building, incentives for good work and promotions, profit share schemes. (15 x 20) (30)

4.5. A market segment is the sector of consumers who might buy a product or service. This could be based on age, sex, income or tastes. It is based on market research. (5 x 2 10)

4.6. Convenience,  $\sqrt{\sqrt{\quad}}$  speciality  $\sqrt{\sqrt{\quad}}$  and industrial  $\sqrt{\sqrt{\quad}}$   
(3 x 2 = 6)

4.7 The choice of methods used to promote a product.  $\sqrt{\sqrt{\sqrt{\sqrt{\quad}}}}$   
(2 x 2 = 4) [60]

**QUESTION 5**

5.1 The Delphi problem-solving technique can be used to tap brainpower from participants at different places at the same time. Information can be exchanged via mail, FAX, or email.  $\sqrt{\sqrt{\quad}}$   
It uses anonymous interviews or involves a series of confidential questionnaires to solve a problem.  $\sqrt{\sqrt{\quad}}$  (2 x 2 =4)

**5.2 The advantages of the Delphi technique**

- Arguments and disputes are minimised.
- It encourages input from people who do their best work without needing to interact.
- It minimises the influence of participants due to rank or status.
- Free expression is promoted, without fear of being belittled.
- The physical presence of participants is not required.  $\sqrt{\sqrt{\sqrt{\sqrt{\sqrt{\sqrt{\quad}}}}}}$  ( 3 x 2 = 6)

**The disadvantages of the Delphi technique.**

4. It can be time-consuming.
5. Bad ideas may be accepted because of a lack of group discussion.
6. There is no opportunity for participants to elaborate or add to someone else's idea.  $\sqrt{\sqrt{\sqrt{\sqrt{\quad}}}}$  ( 2 x 2 = 4)  
(10)

5.3

**Step 1:** Identify the problem

**Step 2:** Ask group members to write possible solutions to a problem. Do this in the form of a questionnaire.

**Step 3:** Combine the results and give each member a copy of the results

**Step 4:** Experts submit new ideas.

**Step 5:** Combine the new information and give it to the experts again.

**Steps 4 & 5** can be repeated until all members in the group agree.

(7 x 2 =14)

5.4 Being honest, giving your best, working fairly: any 3 valid answers

(3 x 2 = 6)

5.5 Brainstorming is a way of generating ideas through a group process.  $\sqrt{\sqrt{\quad}}$  (2)

<b>STEP 1</b>	Outline the brainstorming process to the group.
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<b>STEP 2</b>	Outline the basic rules to be followed:  <ul style="list-style-type: none"> <li>* Keep an open mind – don't criticise anyone.</li> <li>* Let yourself go - don't discuss an idea yet.</li> <li>* Generate as many ideas as possible.</li> <li>* Build on the ideas of others.</li> <li>* Write down all the ideas as they arise.</li> </ul>
<b>STEP 3</b>	PRESENT THE PROBLEM TO THE GROUP
<b>STEP 4</b>	APPOINT A RECORDER
<b>STEP 5</b>	STATE THE PROBLEM IN CLEAR TERMS AND BEGIN
<b>STEP 6</b>	SYNTHESISE SIMILAR IDEAS
<b>STEP 7</b>	GROUP THE LISTED IDEAS INTO THREE GROUPS ( Impossible; Unlikely; Possible)
<b>STEP 8</b>	PRIORITISE THE BEST IDEAS

(8 x 1) (10)

5.6 Ethics means a moral code ✓✓based on set values. ✓✓A Code of Ethics describes the appropriate behaviour✓✓ that is expected from employees in the workplace. ✓✓ (2 x 2 = 4)

5.7 Be trustworthy✓✓ Meet obligations✓✓ Community involvement✓✓ Accounting control✓✓ Transparency. ✓✓ Financial checks ✓✓ (5 x 2 = 10) [60]

## QUESTION 6

6.1

### Receiving documentation

Applicants are asked to submit an application form or a letter of application together with a Curriculum Vitae (CV), certified personal documentation and proof of qualifications.

There is usually a closing date for application.

After the closing date a list of all the applicants is drawn up.

### Screening

The human resources manager will check applications and their CVs against the requirements of the job. Those applicants who do not meet the minimum requirements as stipulated in the advertisement are eliminated. They will get informed that their application was unsuccessful. The rest of the candidates who meet the minimum requirements continue to the next step.

### **Evaluation of CV and creating a short list**

The CVs of the applicants who meet the minimum requirements for the vacant post will be evaluated. After the evaluation, the human resources manager will rank the applicants from most suitable to least suitable. The best candidates with the highest rank order are placed on a **short list** and unsuitable candidates are eliminated.

#### **Check information supplied in CV**

Information in each CV should be confirmed to check that it is true. This includes checking up on qualifications and employment history. The human resources manager will also contact the **referees** given in the CV to verify the CV and learn more about the applicant.

#### **Conducting the interview**

An **interview** is a formal meeting between the candidate (interviewee) and the employer (interviewer).

The purpose of the interview is to get more information about the candidate by asking questions and to evaluate the candidate further.

#### **Assessments**

These tests can be split between personality tests and aptitude or ability tests. The aim of personality tests is to determine personality characteristics.

The aim of aptitude tests is to determine intellectual performance and skills.

Medical examinations can also form part of the assessments.

#### **Letter of appointment**

Once the most suitable candidate has been chosen, a written offer of employment must be made to the successful candidate. Once the chosen candidate has accepted the appointment (in writing), the employment contract needs to be signed.

#### **Remuneration (salaries and other benefits)**

Remuneration is money paid to an employee for work done. A remuneration package will include a salary or wages as well as additional benefits. Salaries usually are paid to qualified or skilled workers while unskilled workers often receive wages as payment.

**Salaries** are a fixed payment to an employee for work done and is paid once a month.

**Wages** are usually a weekly payment to an employee for work done but can also be paid daily, weekly or monthly. A worker's wage can be a fixed payment or it can be calculated according to the number of hours worked or the amount of work done.

Employee benefits, sometimes called fringe benefits or perks, are rewards to employees in addition to a basic salary or wages.

[60]

### QUESTION 7

There are many different theories to explain team dynamics. These different approaches all have something to contribute when you are trying to understand the interactions between members of a team. √√ (2)

#### **Belbin role theory**

The Belbin role theory was developed in the 1970s by Dr Meredith Belbin. A collection of management games was analysed to discover the contributing factors to successful teamwork.

Belbin realised that effective teams are made up of individuals who play nine essential roles.

- **The plant.**
- **The resource investigator.**
- **The co-coordinator.**
- **The shaper.**
- **The monitor evaluator.**
- **The teamworker.**

- **The implementer.**
- **The completer/finisher.**
- **The specialist.**

(8)

**Jungian Theory** According to Jung, there are four pairs of opposing values and functions. Every individual prefers one of the values and functions in each pair:

**Extroverted/Introverted**  
**Sensory/Intuitive**  
**Thinking/Feeling**  
**Judging/Perceiving**

(8)

### **MTR-I approach (Management Team Roles Indicator)**

According to this theory, people are not always doing what is best within a situation. They often are unaware of the impact of their behaviour and are not aware of how their personal preferences affect their view of what is important. The MTR-II identifies the following unique roles of members of a team:

- **Campaigner**
- **Coach**
- **Conductor**
- **Crusader**
- **Curator**
- **Explorer**
- **Innovator**
- **Scientist**
- **Sculptor**

(8)

### **Margerison-McCann profiles**

The Margerison-McCann Team Management profile summarises eight key capabilities required for successful group performance.

#### **The eight team roles according to the Margerison-McCann theory**

- **Explorer-Promoter**
- **Assessor-Developer**
- **Thruster-Organiser**
- **Concluder-Producer**
- **Controller-Inspector**
- **Upholder-Maintainer**
- **Reporter-Advisor**
- **Creator-Innovator**

(8)

### **Group consensus**

Group consensus means that no one feels misunderstood in group decision making. Team members feel that their views are given a fair hearing. Input and ideas from group members are synthesised to make a final decision that is accepted by the group. Sometimes team members need to work through differences to reach a satisfactory agreement.

(6)

[40]

QUESTION 8

**Entrepreneurial qualities** An entrepreneur is someone who starts and manages or organises his/her own business and can either identify business opportunities to make new products or services or identify business opportunities to change existing products or services.

The following qualities can often be found in entrepreneurs:

**Creativity** - identifying opportunities and challenging normal thinking.

**Risk-taking** –taking calculated risks.

**Perseverance** – it takes at least five years for a business to become established and generate sufficient income to maintain itself and the entrepreneur.

**Need for achievement** –an entrepreneur needs to have a desire for excellence and to succeed in competitive situations.

**Responsibility** – entrepreneurs generate ideas to solve problems and take personal responsibility for achieving goals.

**Organisational and management skills** – entrepreneurs use leadership skills to persuade others to help them realise their vision.

**Confident and ambitious** – success improves self-confidence and self esteem.

**Hardworking and energetic** – entrepreneurs commit their time, skills, expertise and resources to starting a business and carry on in difficult situations.

**Visionary** – look ahead to changes in the market and businesses environment, seeing threats as opportunities and using their knowledge to take advantage of such challenges.

**Desire for independence** – a need to be independent from others.

**Good human relations or interpersonal skills** – they have good communication, motivational and leadership skills.

### **Entrepreneurial qualities found in businesses**

Businesses need to embrace entrepreneurial qualities if they want to be competitive and successful.

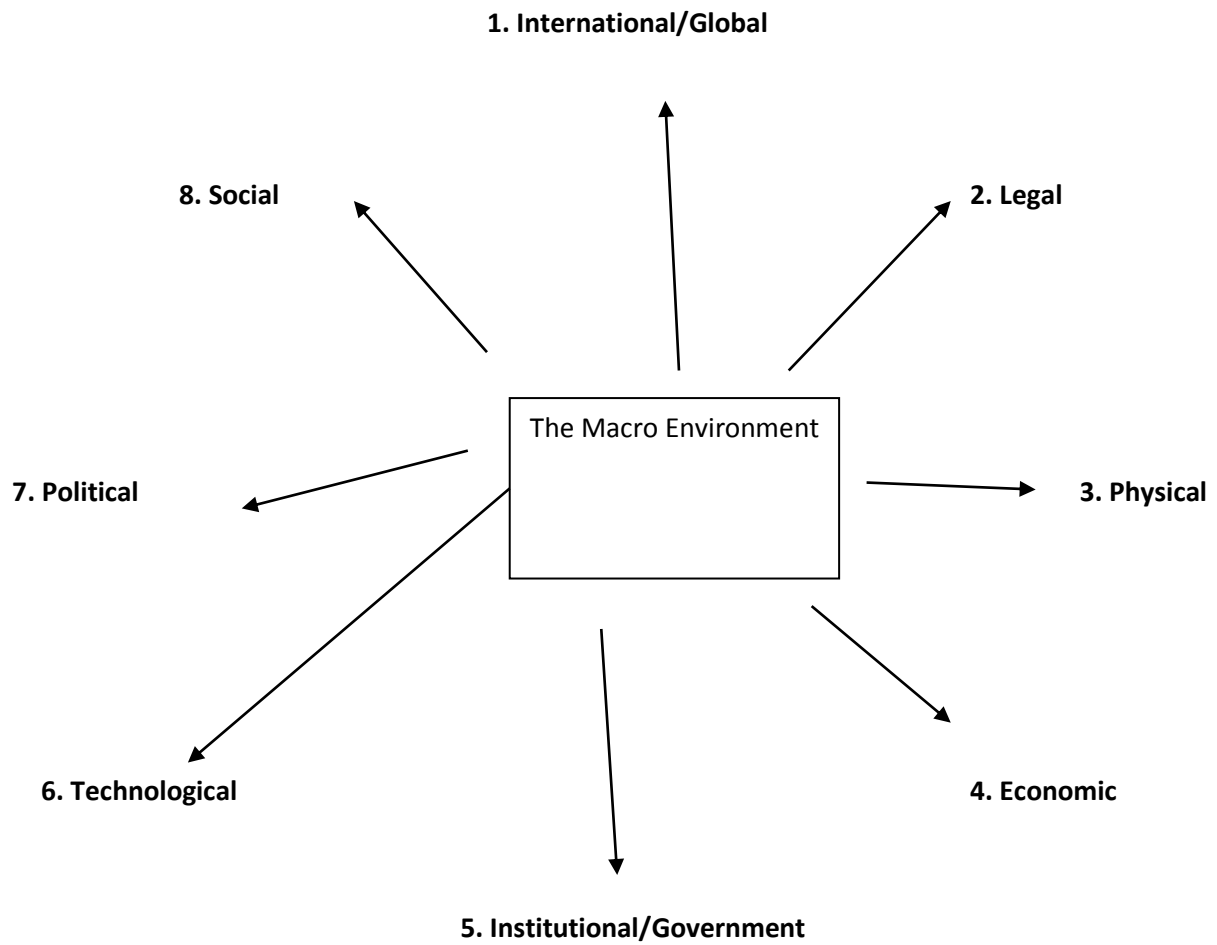
The following factors must be remembered:

- Entrepreneurs are the risk takers who are motivated to achieve their goals and make a profit.
  - Managers in a business are high-level employees who are paid to organise and manage a business. They are not necessarily the ones who create new ideas.
  - An intrapreneur is defined as the ‘inside entrepreneur.’ This person works within a small or large business and uses entrepreneurial skills to benefit the business.
- [40]

### QUESTION 9

9.1. The macro business environment is the external world<sup>√√</sup> around the business over which it has no control<sup>√√</sup>

(4)



(8)

9.3. Banks, ✓✓Mortgage companies, ✓✓ micro lenders ✓✓offering finance✓✓ and also business support. ✓✓ (8)

9.4. Create employment, ✓✓ create economic growth ✓✓ plus explanation (4  
x 2 =8)

9.5. Oil, coal, minerals, ✓✓✓✓✓✓  
(6)

9.6. Primary industries are the extraction of natural resources, forestry and farming✓✓secondary industries produce or manufacture goods using materials from primary industries, ✓✓ tertiary industries offer services to consumers and also assist the other two sectors in delivering goods to the final consumers. ✓✓  
(6) [40]

## QUESTION 10

10.1.1 **A franchise** is the right a business has to use the name, brand, ideas, processes and goodwill of an existing business√√ in a specific geographic area in order to sell its goods or services√√ (4)

10.1.2 The franchisor and franchisee√√ will enter into a formal agreement which stipulates the roles, rights and responsibilities of both parties. √√ The agreement will also specify the following payments: the initial fee; monthly management fee; royalties on turnover; fees for machinery and equipment; and fees for advertising. √√√√  
(8)

10.1.4 Advantages: Easier to raise finance if the business has a good history. √√ Immediate cash flow as there are already established customers√√. Distribution, supply links and staff are already established. √√ The market is not being further divided by an extra business√√. Existing assets form part of the business and do not need to be bought. √√

Disadvantages: Risk of over-estimation of turnover or profit by seller. √√ Success of a business often rests on the reputation of the previous owner or a key staff member (like a chef). √√ Seller may attempt to overstate the return the new owner can expect to make on the investment. √√  
(7 x 2 = 14)

10.1.5 Franchising Association of South Africa √√√√  
(4)

10.2. Outsourcing means contracting out to a third party a task, operation, job or process √√that could be performed by employees within a business. √√ Leasing equipment will help him by allowing him to have use of equipment√√ he needs without having to use capital buying it. √√He will pay a monthly rental for the leased equipment. √√ 5 x 2 = (10) [40]