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**Study Guide**

# **Business Studies**

**Grade 12**

# Term 1 Topic 1 Macro environment: impact of recent legislation on business

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## Overview

This chapter covers the effects of the following legislation on South African businesses:

- Skills Development Act No. 97 of 1998
- Labour Relations Act No. 66 of 1995
- Employment Equity Act No. 55 of 1998
- Basic Conditions of Employment Act No.75 of 1997
- Broad Based Black Economic Empowerment Act No. 53 of 2003
- National Credit Act No.34 of 2005
- Consumer Protection Act No.68 of 2008

## 1 Introduction

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Recap what you learnt in grades 10 and 11 about the different macro environmental factors that affect a business. The macro environment includes external and uncontrollable factors that influence a business decision making, and affect its performance. These factors include economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces.

Laws are an important part of the business world. The legal system is very complicated and people who run businesses need to have a good understanding of it.

During the apartheid era, apartheid legislation determined where people were allowed to live and work. Foreign countries who had invested in South Africa disinvested in protest against apartheid policies and legislation.

**Disinvestment** is when businesses or countries remove all of their investments from a country to create an economic incentive for that country to change its policies. Disinvestment in South Africa resulted in **capital flight**. Capital flight happens when money flows out of a country's economy very quickly as a response to a political event.

After 1994, many of South Africa's laws, especially in the field of labour and the consumer, were revised to create fair employment and trade conditions for all South Africans.

The responsibility for compliance with any of the Acts rests with management alone. Failure to comply with the law can have serious consequences such as:

- Criminal or financial penalties
- Make members of a close corporation or directors of a company personally liable for the businesses actions
- Give the business a bad reputation.

## 2 The Skills Development Act 97 of 1998 and the Skills Development Levies Act of 1999

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### 2.1 Nature and purpose

The Skills Development Act and the Skills Development Levies Act were passed in 1998 and 1999 respectively.

The reason behind this was that South Africa was not equipped with the skills it needed for economic growth, social development and sustainable employment growth.

The National Skills Authority was established in terms of the Skills Development Act of 1998 and was made up of representatives from business, labour, government and other bodies that reflected community and South African society.

The National Skills Development Strategy aims to:

- Develop the skills and learning capacity of employees
- Make it possible for employers to become more productive and competitive
- Reverse apartheid imbalances
- Create a more inclusive and cohesive society.



## Basic Guide to Skills Development Levies

Employers must pay 1% of their workers' pay to the skills development levy. The money goes to Sector Education and Training Authorities (SETAs) and the Skills Development Fund to pay for training.

The Skills Development Levies Act applies to all employers except:

- The public service
- Religious or charity organisations
- Public entities that get more than 80% of their money from Parliament; and
- Employers –
  - Whose total pay to all its workers is less than R 250 000 per year; and
  - Who do not have to register according to the Income Tax Act.

SETAs:

- Develop sector skills plans in line with the National Skills Development Strategy
- Approve the workplace skills plans submitted by businesses in their sectors
- Promote and establish learnerships.
- Pay grants to participating businesses, provided that those businesses have submitted workplace skills plans and implementation reports to their SETA.

### 2.2 Implications for small and large businesses

- All business can benefit from the skills development initiatives
- A motivated and well-trained work force adds value to the business
- HR managers, line managers and staff managers must know the requirements and implications of the legislation
- The 1% Skills Development Levy must be paid within seven days after the end of the month
- To create a learnership a formal learnership agreement has to be entered into by both parties
- The employer has the following responsibilities: to employ the learner for the period specified in the agreement, to provide the learner with practical experience, and to give the learner time to attend the education and training specified in the agreement
- Employers can be fined or even imprisoned (for a period not exceeding one year) if they commit an offence under the Skills Levy Act
- The Income Tax Act (also applicable to SLA), requires all employers to keep a record of all the remuneration paid to every employee, as well as the Employees' Tax deducted from the employees' remuneration and levies paid.



## 2.3 National Skills Development Strategy and the Human Resources Development Strategy

The aim of the National Skills Development Strategy is:

- To improve the skills development system so as to be more responsive to labour market needs and social equity requirements.
- To integrate workplace training and theoretical learning
- To improve the skills level of graduates of secondary and tertiary education
- To address skills shortages in artisanal, technical and professional fields
- To reduce the over-emphasis on NQF level 1-3 learnerships
- To equip those in the workforce with sufficient technological skills
- To improve co-operation between universities, further education and training colleges and sector education and training authorities (SETA)
- To support economic growth and development through viable skills development
- To develop sufficient skills for rural development.

Co-operation and co-ordination from key stakeholders, such as government, the SETAs and employers, is essential for the realisation of the NSDS III goals. The Department of Higher Education and Training (DHET), the SETAs and the National Skills Fund are the key drivers of NSDS III. DHET.

## 3 Labour Relations Act (LRA) 66 of 1995

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### 3.1 Nature and purpose

The Labour Relations Act (LRA), Act 66 of 1995 aims to promote economic development, social justice, labour peace and democracy in the workplace.

The Labour Relations Act applies to all employers, workers, trade unions and employers' organisations, but does not apply to members of the:

- National Defence Force
- National Intelligence Agency
- South African Secret Service.

Trade unions are recognized under the 1996 Constitution of South Africa, which provides for the right to join trade unions, and for unions to collectively bargain and strike.



Three institutions have been created to reduce industrial relations conflict, and eliminate unfair discrimination and redress past discrimination in the workplace: the National Economic Development and Labour Council (NEDLAC), the Labour Court, and the Council for Conciliation, Mediation and Arbitration (CCMA).

For most businesses the fact that the LRA prescribes rules on how to dismiss employees makes it a very important. However, the purpose of the act covers more than that – it promotes economic development, social justice, labour peace and the democratisation of the workplace through:

#### **3.1.1 Freedom of association**

Freedom of association means the right to come together with other individuals and collectively express, promote, pursue and defend common interests. This includes the right to join a union.

#### **3.1.2 Organisational rights**

The Act allows trade unions to gain access to the business' premises to recruit members and hold meetings.

#### **3.1.3 Bargaining and statutory councils**

Bargaining councils are formed by registered trade unions and employers' organisations. They deal with collective agreements, attempt to solve labour disputes, and make proposals on labour policies and laws. As well, they may administer pension funds, sick pay, unemployment and training schemes, and other such benefits for their members.

#### **3.1.4 Commission for Conciliation, Mediation and Arbitration**

The Commission for Conciliation, Mediation and Arbitration (CCMA) is a dispute resolution body established in terms of the Labour Relations Act, 66 of 1995 (LRA). It is an independent body, does not belong to and is not controlled by any political party, trade union or business.

The LRA makes provision for disputes that cannot be solved in the workplace.

If this process fails the dispute is referred to the Labour Court.

#### **3.1.5 The Labour Court and the Labour Appeal Court**

The Labour Court has the same status as a high court. The Labour Court adjudicates matters relating to labour disputes. Appeals are made to the Labour Appeal Court.



### 3.1.6 Strikes and lock-outs

If a strike does not comply with the provisions of the LRA, the Labour Court can grant an order to restrain any person from participating in such action. The Labour Court may also order payment to the employer for losses sustained as a result of the illegal strike or lock-out.

### 3.1.7 Workplace forums

The main aim of workplace forums is to solve labour-related problems by establishing co-operative relationships between all workers (also non-trade union workers) and the employer. A workplace forum may be established in a business with more than 100 employees. Only registered trade unions may apply to the CCMA for the establishment of a workplace forum.

### 3.1.8 Unfair dismissal

Dismissal is unfair if:

- A worker intended to or did take part in or supported a strike or protest
- A worker refused to do the work of a striking or locked out co-worker, unless his refusal will endanger life or health
- A worker is forced to accept a demand
- A worker intended to or did take action against an employer by –
  - Exercising a right; or
  - Taking part in proceedings; or
- A worker is pregnant or intends to be pregnant
- An employer discriminated against a worker because of race, gender, sex, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, political opinion, culture, language, marital status or family responsibility
- An employer cannot prove -
  - A worker's misconduct or inability
  - That the employer's operational needs are valid
  - That the dismissal procedure was fair.

## 3.2 Implications for businesses

The LRA follows the principle of collective bargaining and puts structures in place with which disputes in the workplace can be settled. This has advantages for both employers and employees and promotes a healthy relationship between them. Non-compliance with LRA rules and regulations also poses a very real risk to employers because there is an effective and inexpensive (free) option to employees in the form of the CCMA and the Department of Labour.



### **CCMA fees and costs**

When asked by employees, employers, or other interested parties for advice or training the CCMA will assist. In 2012 the fee was between R1 650,00 and R1 835,00 for each day or part of a day.

## **4 Basic Conditions of Employment Act 75 of 1997**

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### **4.1 Nature and purpose**

The 1996 South African Constitution (section 23) gives every worker and employer the right to fair labour practices. The Act applies to all workers and employers except members of the National Defence Force, National Intelligence Agency, South African Secret Service and unpaid volunteers working for charities.

#### **4.1.1 Working time**

A worker must NOT work more than:

- 45 hours in any week
- Nine hours a day if a worker works five days or less a week
- Eight hours a day if a worker works more than five days a week.

#### **Overtime**

If overtime is needed, workers must agree to do it and they may not work for more than three hours overtime a day or ten hours overtime a week.

Overtime must be paid at 1.5 times the workers' normal pay or, by agreement, get paid time off.

#### **4.1.2 Leave**

- **Annual leave**

A worker can take up to 21 continuous days' annual leave or by agreement, one day for every 17 days worked or one hour for every 17 hours worked.

Leave must be taken not later than six months after the end of the leave cycle.

An employer can only pay a worker instead of giving leave if that worker leaves the job.





- **Sick leave**

A worker can take up to six weeks paid sick leave during a 36-month cycle.

During the first six months, a worker can take one day's paid sick leave for every 26 days worked.

An employer may want a medical certificate before paying a worker who is sick for more than two days at a time or more than twice in eight weeks.

- **Maternity leave**

A pregnant worker can take up to four continuous months of maternity leave. She can start leave any time from four weeks before the expected date of birth OR on a date a doctor or midwife says is necessary for her health or that of her unborn child. She also may not work for six weeks after the birth of her child unless declared fit to do so by a doctor or midwife.

A pregnant or breastfeeding worker is not allowed to perform work that is dangerous to her or her child.

- **Family responsibility leave**

Full-time workers employed longer than four months can take three days' paid family responsibility leave per year on request when the worker's child is born or sick or for the death of the worker's spouse or life partner, parent, adoptive parent, grandparent, child, adopted child, grandchild or sibling.

An employer may want proof that this leave was needed.

#### **4.1.3 Remuneration, deductions and notice of termination**

The employee must be paid according to the agreement with the employer and deductions must be agreed to by the worker in writing or if the employer is required to do so by law (e.g. Income tax and UIF).

Notices must be given in writing.

The employer may pay for the notice period instead of giving notice.

The worker still has the right to challenge the fairness of the dismissal.

The worker must be paid for any accrued annual leave.

If the termination of employment is because of a change in business operations (retrenchment) then severance pay (one week for every full year worked) has to be paid to the worker.



#### 4.2.4 Administrative obligations

Amongst other things employers must keep a record of at least:

- The worker's name and job
- Time worked
- Money paid
- Date of birth for workers under 18 years old.

#### 4.3 Implications for businesses

Employers should have a good understanding of their obligations. It has become essential for all companies to have access to a specialist who is familiar with this legislation and its principles. Failure to comply with this Act can lead to fines or criminal prosecution.

## 5 Compensation for Occupational Injuries and Diseases (COIDA) Act 61 of 1997

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### 5.1 Nature and purpose

The purpose of the Act is to provide compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases, and to provide for matters connected therewith.

Businesses have the following responsibilities in terms of the Occupational Health and Safety Act of 1993:

- The working environment must be made safe for workers and there must be no risks to their safety
- Workers must receive information, instructions, training and supervision to ensure the health and safety of all employees.

## 5.2 Implications for businesses

- All businesses must register their business with the commissioner of the Compensation Fund
- Each year the business must provide the commissioner with information on the workers employed, the wages paid to them and the time they have worked
- These records must also be kept safely by the business for a period of four years.

## 6 The Employment Equity Act (EEA) of 1998

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### 6.1 Nature and purpose

The overall aim of the Employment Equity Act (EEA) is to achieve equity in the workplace through:

- The prevention of discrimination, which applies to all employers
- The implementation of affirmative-action measures.

The Act states that no person may unfairly discriminate (directly or indirectly) against an employee on one or more of the following grounds: race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, disability, HIV status, culture or birth.

### 6.2 Implications for the employer

- Employers must prepare employment equity plans in accordance with the Act
- These plans must be submitted to the Department of Labour for assessment
- Failure to comply with the Act may result in fines ranging from R1/2 million to R1 million.

## 7 Black Economic Empowerment Act of 2003 and the Broad-based Black Economic Empowerment (BBBEE) Act

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### 7.1 Nature and purpose

The Act seeks to correct the disparities caused by Apartheid by promoting new opportunities for, and increasing the levels of participation of, previously disadvantaged individuals and companies in the ownership, management and control of the South African economy.



## 7.2 Implications for businesses

BBBEE compliance is measured in the seven key BBBEE areas of the business. These are:

- **Ownership:** points are earned by selling shares to black people
- **Management Control:** points are earned by appointing black top managers and directors
- **Employment Equity:** points are earned by employing junior/middle/senior managers and for smaller businesses black workers
- **Skills Development:** points are earned by training employees through on the job training or formal training
- **Preferential Procurement:** points are earned by purchasing goods and services from other businesses with a good BEE Scorecard
- **Enterprise Development:** points are earned by assisting smaller black owned businesses to grow
- **Socio economic Development:** points are earned by supporting black social causes.

## 8 National Credit Act of 2005

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### 8.1 Nature and purpose

The National Credit Act has put into place protection measures that aim to improve consumer rights as well as protect and streamline credit transactions.

### 8.2 Implications for business

Credit providers must do an affordability assessment to ensure that the consumer has the ability to meet their obligations in a timely manner.

Some of the requirements of the Act are:

- All credit contracts must be in a language and form which are easily understandable and should be in at least two languages
- All credit providers are obliged to do an analysis of the consumer's profile, to ensure that the provider can afford the credit applied for
- One of the main purposes of the Act is to prevent discrimination in the credit market and to ensure that credit is available to all South African citizens
- The Act gives a consumer, whose application for credit was refused, the right to written reasons for the decision
- A cooling off period is compulsory for all credit agreements
- Consumers under credit agreements have the right to return the purchased goods, at any given time during the contract, to the provider to be resold.

## 9 Consumer Protection Act of 2009

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### 9.1 Nature and purpose

This Act has been brought into law to promote and advance the social and economic welfare of all consumers.

### 9.2 Impact of the Act on different aspects of business

Examples of the impact the Act may have on different aspects of doing business are:

- The Act prohibits discriminatory marketing
- The Act gives the consumer the right to select suppliers; to be given estimates; the right to choose or examine goods; the right to return goods and so-called unwanted goods.
- Consumers are entitled to information in plain and understandable language
- The Act prohibits unacceptable conduct; false or misleading representations.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 The Skills Development Act and the Skills Development Levies Act were passed in \_\_\_\_ and \_\_\_\_\_ respectively:
- A 1985, 1986
  - B 1998, 1999
  - C 2000, 2010
  - D 1976, 1978(2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 The Labour Relations Act applies to all employers, workers, trade unions and employers' organisations, but does not apply to:
- A National Defence Force
  - B Accountants
  - C Lawyers
  - D Teachers(2)

**Question 3: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

3.1 The Labour Court has the same status as a \_\_\_\_\_:

- A Magistrates Court
- B Supreme Court
- C High Court
- D Constitutional Court(2)

**Question 4: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

4.1 A worker must NOT work more than:

- A 45 hours in any week
- B 10 hours in any week
- C 35 hours in any week
- D 60 hours in any week(2)

**Question 5: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

5.1 The Consumer Protection Act of 2009 was brought into existence to:

- A promote and advance the prosperity of manufacturers
- B promote economic sustainability
- C promote and advance the economic welfare of the wealthy
- D promote and advance the social and economic welfare of all consumers. (2)

**Question 6: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

6.1 The Black Economic Empowerment Act was passed in \_\_\_\_\_:

- A 1994
- B 2002
- C 2003
- D 1995 (2)

**Question 7:** Why is contemporary legislation a challenge to businesses? (2)

**Question 8:** Why do consumer rights have implications for businesses? (4)

**Question 9:** According to the COIDA, what are the obligations of employers? (12)

**Question 10:** What is industrial action, and what are the two kinds of industrial action? (6)



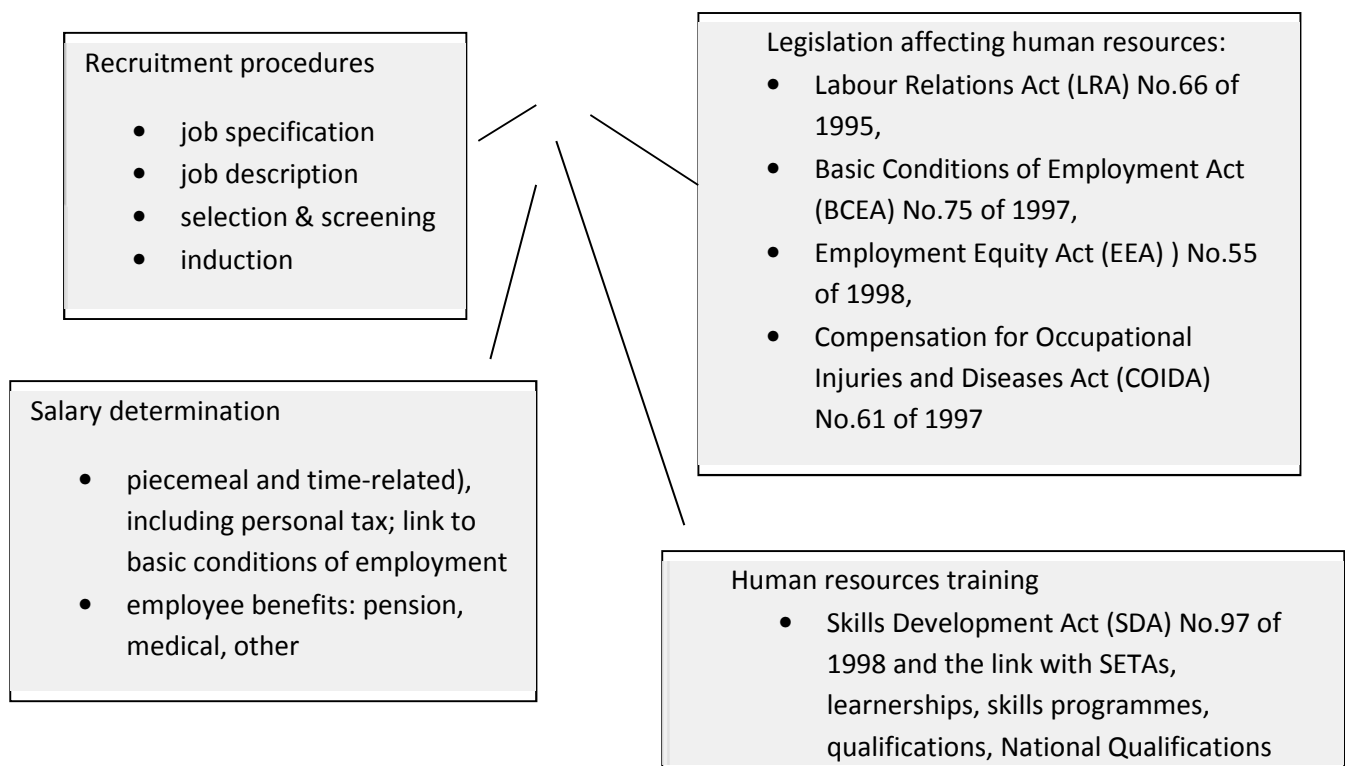
# Term 1 Topic 2 Human resources function

## Overview

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The human resources function is a very important part of any business because it deals with people and with complying with laws. People working in the HR department must be able to answer questions such as:

- What is the best way to go about hiring new employees?
- What is the correct way to pay salaries and wages?
- What laws must be complied with?



## 1 Analysis of human resources activities

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Recruitment is the process by which a business seeks to hire the right person for a vacancy.

Recruitment is an ongoing process and possible reasons for recruitment within a business include:

- Expansion of the business
- Existing employees leave
- Business needs employees with new/advanced skills
- The business may be relocating
- Employees retire
- Employees may be dismissed.

Internal recruitment involves appointing existing staff from within the organisation.

External recruitment involves hiring staff from outside the organisation.

Once the most suitable candidate has been selected, s/he must be offered the position and a contract of employment must be signed by both the employer and the employee.

Induction is the process of introducing new employees to the business, fellow employees, the specific job and the corporate culture of the organisation.

Good induction practices include:

- Having clear performance standards
- Allowing for "settling-in time"
- Providing support and a mentor to assist the new employee
- Ensuring the new employee feels part of the team
- Giving initial tasks that provide success.

A salary is regular payment for employment which has been agreed upon and signed by employer and employee. Usually a salary is paid on monthly not on hourly, daily, weekly or piece-work basis.

Other benefits such as pensions, retirement annuity and car allowance may also be part of an employment contract with an employee and must be dealt with by the HR department.



## 2 HR procedures

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### Recruitment

The business writes a job description and job specification for the vacancy and then either selects someone internally or sources externally. This can be done by:

- Placing advertisements in newspapers or notice boards
- Recruiting at special events e.g. during a university's open day
- Vacation work, e.g. when an enterprise decides to recruit a student who has worked permanently at the enterprise during the holidays
- Using a computer database, e.g. by storing all the information of candidates who have previously applied for jobs
- Making use of recruitment agencies.

**Internal recruitment** involves appointing existing staff from within the organisation

**External recruitment** involves hiring staff from outside the organisation

### Job description

A job description refers to the content of the job itself and sets out the duties and responsibilities required of the person employed to do the job and needs to outline:

- The title of the job
- The location of the job
- The duties of the job.

### Job specification

A job specification indicates the specific qualifications, skills and experience required of the person who will fill the job. It will need to set out:

- Qualifications required
- Personal qualities needed
- Work experience required.

### Selection

Selection means identifying and hiring the most appropriate candidate to fill a post. HR often receives many applications when a job is advertised.

The process of selecting involves:

- Advertising, either internally or externally
- Short-listing suitable candidates
- Checking on CV's and references
- Interviewing the shortlisted candidates
- Selecting the correct candidate for the job.

## Interviewing

The purpose of the interview is to meet the applicant personally and to make sure he or she will fit into the company and is capable of fulfilling the advertised position.

## 3 Human resources legalities

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### Labour Relations Act (LRA) No. 66 of 1995

This Act sets out the laws that govern labour in South Africa. It is guided by Section 27 of the Constitution, which entrenches the rights of workers and employers to form organisations for collective bargaining. Together with the Basic Conditions of Employment Act, it also ensures social justice by establishing the rights and duties of employers and employees. It also regulates the organisational rights of trade unions deals with strikes and lockouts, workplace forums and other ways of resolving disputes. It provides a framework for the resolution of labour disputes through the Commission for Conciliation, Mediation and Arbitration (CCMA), Labour Court and Labour Appeal Court.

### Basic Conditions of Employment Act (BCEA) No. 75 of 1997

The BCEA is designed to protect employees against unfair labour practices and exploitation. It states the minimum conditions of employment that must be adhered to by both employers and employees. It is up to the employer to offer better conditions of employment than stated in the BCEA.

### Employment Equity Act (EEA) no.55 of 1998

The purpose of the Act is to achieve equity in the workplace by:

- Promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination
- Implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, to ensure their equitable representation in all occupational categories and levels in the workforce.



## **Occupational Injuries and Disease Act (COIDA) No. 61 of 1997**

The objective of Compensation for Occupational Injuries and Diseases Act no 61 of 1997 (COIDA) is to pay compensation out to an employee or his dependents, where, as a result of his activities in the work situation, he died or was partially or totally disabled or contracted an occupational disease. COIDA thus acts as insurance in order to safeguarded the employer from any claims by an employee in this regard, as long as the employer has complied with the provisions of the Act.

### **3.5 Employment contracts**

The contract of employment is a legal document signed between employer and employee. The contract:

- Regulates the terms and conditions of employment between the employer and the employee.
- Stipulates what the employer will provide in terms of benefits, and in terms of labour legislation
- Regulates the behaviour of the employee in the workplace - because all company policies and procedures, as well as the disciplinary code, form a part of the employment contract.

### **3.6 Interviewing, selection and induction procedures**

The HR department must follow the process of recruitment, interviewing, selection and induction to ensure effective hiring and also to ensure all procedures comply with policies, such as

## **Salary Determination**

The wage board sets minimum rates and other conditions of employment for all trades. Different jobs are paid different amounts of money because some jobs, such as top management positions, require a higher level of skill and responsibility, and also some jobs have a higher risk or require relocation.

## **Employee benefits**

Depending on the policy of the business, the employee may receive benefits other than payment for doing his/her job. Such benefits may include:

- Contributing towards the employee's pension fund, or medical aid
- Travel allowance
- Housing subsidy
- Mobile phone allowance
- Annual bonus
- Death and funeral benefits
- Shares issues by employer to employee's.



## The Skills Development Act (SDA) No.97 of 1998

The SDA and SAQA provide for the training and development of all people in South Africa and are intended to help overcome a serious shortage of trained and skilled people in the country.

The aims of the SDA are to:

- Develop the skills of all workers
- Encourage employers to use their workplace as a learning environment
- Encourage employees to participate in training programmes
- Provide opportunities to learn new skills
- Assist people from previously disadvantaged backgrounds by offering training and education.

The aims of the Skills Development Act are carried out by the following institutions:

- The National Skills Authority
- The South African Qualifications Authority(SAQA)
- Sector Training Authorities(SETAs).

### South Africa Qualifications Authority (SAQA)

The SAQA is an official body appointed by the Ministers of Education and Labour to oversee the development of the National Qualification Framework (NQF) in South Africa. SAQA is responsible for developing and maintaining learner's records and providing information on registered qualifications, minimum standards, moderating bodies and learner's achievements.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 Which of the following is not a valid reason for employing someone:

- A To fill a vacancy
- B Because they are related to you
- C The business is expanding
- D The business is relocating (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

2.1 Which of the following is not considered an employee benefit:

- A Salary
- B Pension
- C Travel allowance
- D Housing subsidy (2)



**Question 3: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 A good induction process does not include:
- A Intimidating the newcomer
  - B Making them feel part of a team
  - C Allowing for “settling in” time
  - D Providing support (2)

**Question 4: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 4.1 The SDA and SAQA provide for the training and development of all people in South Africa and are intended to:
- A help prevent qualified people leaving the country to work overseas
  - B help overcome a surplus of trained and skilled people in the country
  - C help overcome a serious shortage of trained and skilled people in the country
  - D help SARS collect more revenue (2)

**Question 5: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 5.1 The Labour Relations Act together with the \_\_\_\_\_ provide for justice in the work place:
- A Skills Development Act
  - B Pensions Reform Act
  - C Income Tax Act
  - D Basic Conditions of Employment Act (2)

**Question 6:** List up to 4 disadvantages of choosing either internal or external recruitment. (16)

**Question 7:** Give a reason for retrenchment. (2)

**Question 8:** What should a business consider when retrenching an employee? (2)

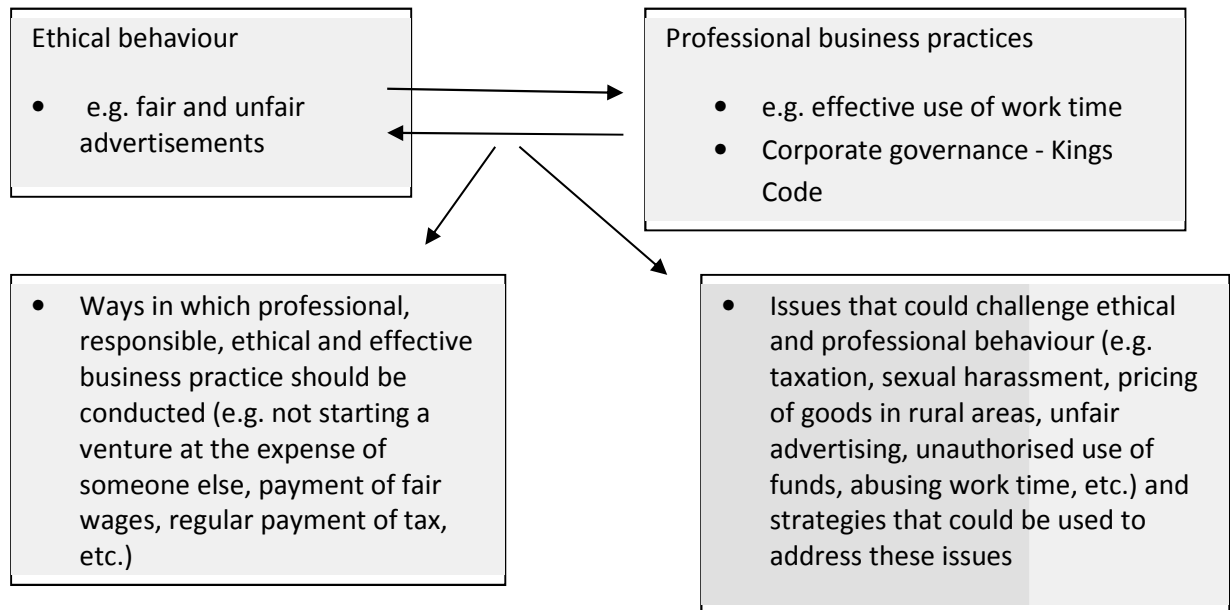


# Term 1 Topic 3 Ethics and Professionalism

## Overview

This chapter deals with how professional, responsible, ethical and effective business practice should be conducted in changing and challenging business environments

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## 1 How professional, responsible, ethical and effective business practice should be conducted in changing and challenging business environments

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When we talk ethical behaviour and ethical business practices we mean that the highest legal and moral standards need to be upheld when dealing with any stakeholder of the business.

## 1.2 Ethical and unethical business practice

People who choose to engage in unethical business practices may find themselves guilty of a criminal offence or at the very least end up with a bad business reputation.

Examples of unethical business behaviour may include:

- Dishonesty, deception and lack of transparency
- Deliberately trying to mislead or confuse consumers
- Being greedy to produce maximum profit at the expense of the consumer
- Falsifying documentation
- Harming the environment and ignoring environmental legislation
- Invasion of privacy
- Sexual discrimination
- Nepotism
- Industrial espionage.

## 1.3 Professional and unprofessional business practices

Professionalism covers issues like appearance, communication, attitude, responsibility, knowledge, skills, integrity, respect and loyalty linked to a specific profession. Different professions often have their own sets of rules governing how their members are required to conduct themselves. An example is that of lawyers who are members of the Law Society.

## 1.4 The relationship between ethical and professional behaviour

Ethical behaviour involves following the principles of right and wrong in business practice, whilst professional behaviour is a broader concept.

## 1.5 Ways in which professional, responsible, ethical and effective business practice should be conducted

Corporate governance refers to the way in which a business is managed (governed). This also includes ethical business practice. A Former Judge of the High Court, Mervyn King, and other delegates, known as the King Commission, developed a code for businesses to follow.

If you want to list your company on the Johannesburg Stock Exchange (JSE), you have to make sure that your business complies with the King Code. Big companies such as KPMG, Deloitte, Ernst & Young, Webber Wentzel and PricewaterhouseCoopers endorse the Code, and important business bodies such as the Johannesburg Stock Exchange, Ethics Institute of South Africa, South African Chamber of Commerce and Industry and the South African Institute of Chartered Accountants support it.



The Code focuses on transparency, responsibility, accountability, fairness, sustainable development, leadership and values. Striving towards professional, responsible, ethical and effective business practices, the business needs to consider the following when dealing with stakeholders:

- **Investors/owners:** unnecessary risks should not be taken when using the money of investors or owners. Transparency in all business dealings is essential
- **Employees:** remuneration and working conditions should comply with those set by the Basic Conditions of Employment Act for the particular industry
- **Customers:** information regarding the product or service needs to be made clear to the customer so that they can make an informed decision
- **Competition:** industrial espionage must be avoided as well as other activities where competitors are unfairly placed in a disadvantaged position to gain the competitive advantage
- **Community:** the business should be involved with social responsibility and sustainable development programmes
- **Government:** rules and regulations, such as tax legislation should be adhered to, for example by making full disclosure of assets and profits
- **Environment:** businesses should strive to enforce sustainable environmental practices, such as recycling programmes.

## 2 Reflection on the business environment in relation to ethical and professional behaviour

Business Unity South Africa's Charter for Ethical Business Practices describes ethical business practices as business practices that involve:

- responsibility (businesses must be accountable for their acts);
- integrity (businesses must do what they say);
- respect (businesses must respect other people's human rights and dignity); and
- fairness (businesses must balance the interests of all parties).

### 2.1 Issues that could challenge ethical and professional behaviour

- Taxation
- Sexual harassment
- Pricing of goods in rural areas
- Unfair advertising
- Unauthorised use of funds
- Abuse of work time.





## **2.2 Strategies to address these issues**

### **Taxation**

The business needs to be familiar with the latest changes in tax legislation to comply with the law.

### **Sexual harassment**

The business needs to ensure that all employees are familiar with the businesses code of ethics.

### **Pricing of goods in rural areas**

Businesses should try to obtain their supplies from cheaper suppliers to keep prices as low as possible.

### **Unfair advertising**

Customers can send complaints to ASA if the conduct of the business is not in line with the expectations of ASA.

### **Unauthorised use of funds**

Accountants should be accountable for business funds and the necessary checks and balances put in place to ensure that no unauthorised use of funds occurs.

### **Abusing of work time**

Employees should consider the implications of their actions on the profitability and success of the business.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

Which of the following is not an example of unethical business behaviour:

- A omitting facts to mislead or confuse consumers
- B creating false documentation
- C Being polite to customers and staff
- D industrial espionage (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

Which of the following is not a tax applicable to South African businesses:

- A Income tax
- B Inheritance tax
- C VAT
- D Corporate tax (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

Which of the following does corporate governance not refer to:

- A Sustainable development
- B Accountability
- C Profitability
- D Fairness (2)

### Question 4: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

Which of the following is not an issue that could challenge professional behaviour:

- A Tax
- B Sexual discrimination
- C Abuse of work time
- D Your religion (2)

**Question 5: True/false**

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

5.1 The Former Judge of the High Court, Donald King, and other delegates, known as the King Commission, developed a code for businesses to follow.(2)

5.2 The Advertising Standards Authority (ASA) regulates advertising in South Africa and protects the customer and competitors from unfair advertising practices. (2)

**Question 6: True/false**

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

6.1 Tax evasion such as not disclosing all income on tax returns is a criminal act, which could be punishable by law.

6.2 In order to help avoid sexual harassment businesses need to ensure that all employees are familiar with the code of ethics of the business.

**Question 7:** Define good corporate governance. (5)

**Question 8:** What is sexual harassment, and how does it challenge ethical and professional behaviour in the business environment? (10)

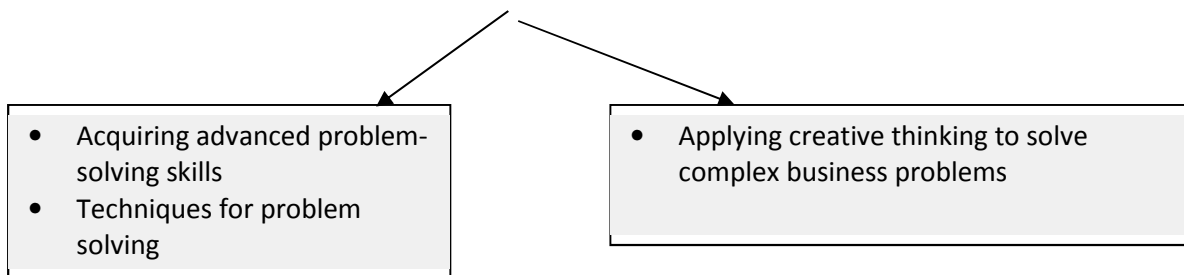
**Question 9:** What is tax evasion and why is it unethical and unprofessional? (6)

# Term 1 Topic 4 Creative thinking

## Overview

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This topic deals with the application of creative thinking to respond to challenges in dynamic and complex business contexts.



## 1 Acquiring advanced problem-solving skills

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Being able to think creatively and solve problems that businesses and business people face is crucial to their success. These problems may arise in the micro environment, the macro business environment or in the market environment.

### 1.1 Techniques to define a challenge

A solution to a problem that worked in the past may not work now and business leaders may need to come up with new solutions to problems by thinking laterally.

Lateral thinking is solving problems through an indirect and creative approach, using reasoning that is not immediately obvious and involving ideas that may not be obtainable by using only traditional step-by-step logic.

Challenges need to be clearly defined before you can try to come up with a solution.

Different techniques used to define a challenge may include:

#### 1.1.1 Progressive abstraction technique

This technique is used to develop an alternative definition of the challenge. It involves moving from one level of challenge to another until a satisfactory definition is reached – in other words, expanding the definition of the challenge. Once a suitable level of abstraction is achieved, it is easier to identify possible solutions.



### **1.1.2 Boundary examination technique**

This technique redesigns the boundaries of thinking about a challenge. It also helps managers find new ways of looking at challenges.

### **1.1.3 Wishful thinking technique**

This approach can free you from unnecessary but unrecognized assumptions that you are making about the scenario of concern.

Generally, the steps to follow in applying the technique are as follows:

1. State the question, goal, situation, or problem.
2. Assume anything is possible.
3. Using fantasy, make statements such as: 'What I really want to do is...' or 'If I could choose any answer to this question, it would be...'
4. Examine each fantasy and their statements and, using this as a stimulation, return to reality and make statements such as: 'Although I really cannot do that, I can do...' or 'It seems impractical to do that, but I believe we can accomplish the same thing by...'

### **1.2 Gather relevant information**

Once the problem or challenge has been defined the next step is to gather as much information about it as possible. This information can be gathered in many different ways such as talking to people, conducting research into the issue, etc...

### **1.3 Steps in solving a problem**

Generally the problem solving process involves the following seven steps:

1. Define the problem
2. Find potential causes for the problem
3. Identify alternative ways to solve the problem
4. Choose a way to solve the problem
5. Plan and implement an action plan
6. Monitor the implementation of the plan
7. Check if the problem has been resolved.



## 2 Application of creative thinking to solve business problems in case studies and given scenarios

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Creative thinking is important for solving business problems because it focuses on exploring ideas, generating possibilities, looking for many right answers rather than just one. There are many different tools you can use to be creative. For example you can discuss your problem with other creative people.

### 2.1 Recap creative thinking

You should revise some creative thinking skills that you learnt in Grades 10 and 11.

#### 2.1.1 Routine versus creative thinking

Routine thinking is when a person uses the skills they are most familiar with to solve a problem.

#### 2.1.2 Brainstorming

**Brainstorming** is a group or individual creativity technique by which efforts are made to find a conclusion for a specific problem by gathering a list of ideas spontaneously contributed by its member(s).

#### 2.1.3 E-brainstorming

This is a technique where people enter their ideas on their computers, before sharing, elaborating and evaluating them.

#### 2.1.4 Delphi technique

The Delphi technique is an intensive and fairly specialized group problem-solving method used to harness and reconcile the knowledge and judgment of several experts.

#### 2.1.5 Stepladder technique

This technique encourages individual participation in group decision-making, to get a greater mix of ideas.

#### 2.1.6 Force-field analysis

It provides a framework for looking at the factors (*forces*) that influence a situation, originally social situations. It looks at forces that are either driving movement toward a goal (helping forces) or blocking movement toward a goal (hindering forces).



### 2.1.7 Fishbone analysis

This requires a group to identify the problem factors, then individuals work on solutions.

### 2.1.8 SWOT analysis

SWOT analysis (alternately SLOT analysis) is a strategic planning method used to evaluate the Strengths, Weaknesses/Limitations, Opportunities, and Threats involved in a project or in a business venture.

### 2.1.9 Six thinking hats

In Grade 10 you learnt about Edward de Bono's idea of using Six thinking hats to encourage creative thinking. The thinking hat tool provides a means for groups to think together more effectively, and a means to plan thinking processes in a detailed and cohesive way.

### 2.1.10 PESTLE analysis

PEST analysis stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management.

- **Political** factors are how and to what degree a government intervenes in the economy.
- **Economic** factors include economic growth, exchange rates etc... These factors have major impacts on how businesses operate and make decisions.
- **Social** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety.
- **Technological** factors include technological aspects such as automation, technology incentives and the rate of technological change.
- **Environmental** factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance.
- **Legal** factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law.

### 2.1.11 Value chain analysis

Rather than looking at departments or accounting cost types, Porter's Value Chain focuses on systems, and how inputs are changed into the outputs purchased by consumers. Using this viewpoint, Porter described a chain of activities common to all businesses. The main aim is to gain the competitive edge over its competitors.



### 2.1.12 DRIVE technique

The full name of 'DRIVE' is 'Define-Review-Identify-Verify-Execute'. Using this methodology requires following steps:

D – Define – You should define – (i) the scope of your problem, (ii) the success criteria measurements – including deliverables and success factors that you agree

R – Review – Review the current situation of the problem, understand the background of the problem, determine and collect information – performance data, problem areas, improvement options

I – Identify (determine) – Identify (determine) improvement options or solutions to the problem – What changes you need to improve your process so as to enable to rectify the problem

V- Verify – Verify (check) – Whether determined improvement options or solutions will bring those results that we defined as the success criteria measurements

E – Execute (implement) for solutions and improvement – Plan and execute improvement options or solutions, check the results.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is not a creative tool for problem solving:
- A The Chapman process
  - B Value chain analysis
  - C PESTLE analysis
  - D Force-field analysis (2)

### Question 2: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 2.1 'DRIVE' is 'Define-Review-Identify-Verify- Execute. (2)
- 2.2 Generally the problem solving process involves eight steps (2)

### Question 3: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 3.1 The thinking hat tool provides a means for groups to think together more effectively, and a means to plan thinking processes in a detailed and cohesive way. (2)
- 3.2 The Delphi technique is an intensive and fairly specialized group problem-solving method used to harness and reconcile the knowledge and judgment of several experts. (2)





**Question 4: Answer the following question**

Write down the steps that can be taken to solve a problem. (14)

**Question 5: Answer the following question**

Explain what the term lateral thinking means. (4)

**Question 6: Answer the following question**

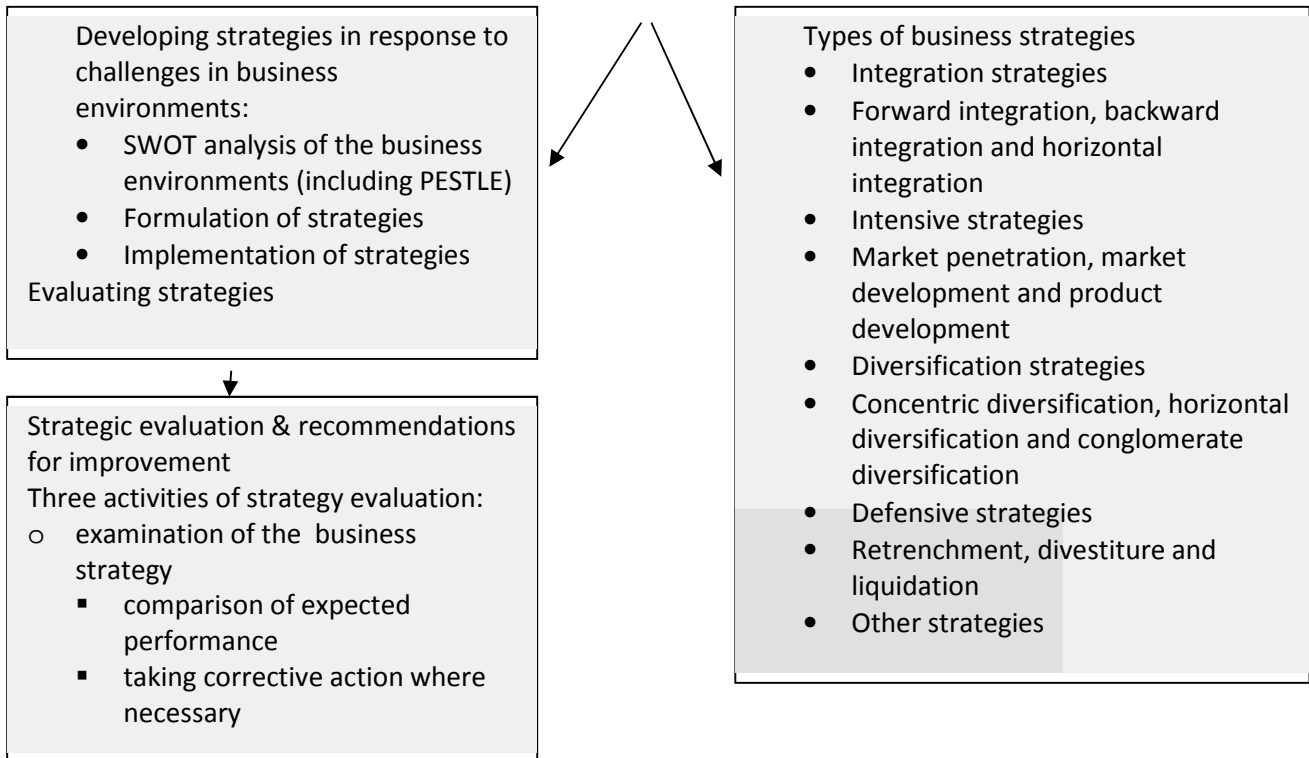
Explain how the Wishful thinking technique works. (10)



# Term1 Topic 5 Macro environment: Business Strategies

## Overview

This topic looks at strategies businesses can use to counteract threats in the macro environment



## 1 Introduction

In Term 1 Topic 1 you studied the three business environments and the challenges they hold for a business.

Management has to consider both the internal and external environments in order to identify the opportunities and threats, as well as strengths and weaknesses for the business.

Once this has been done management are then able to draw up plans to solve these problems.



Top management usually develop corporate strategies which focus on the need for the business to adapt to and foresee changes in the business environment. Managers at middle and lower management levels then devise operational strategies, which are specific to their section but still in line with the corporate strategy developed at top management level.

Strategic planning can be defined as a businesses process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the business, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action.

## 2. The strategic management process

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Strategic management is a process aimed at achieving a business goal using the four management elements of planning, organising, leading and control.

The following three areas of the strategic management process will be discussed in the rest of the topic:

- Formulation of strategies
- Implementation of strategies
- Evaluation of strategies.

## 3 Formulation of strategies

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There are four phases in formulating strategies:

### 3.1 Establish a strategic direction

The strategic direction of a business usually consists of a vision statement and a mission statement.

### 3.2 Develop strategic goals

From the vision and mission statements a set of strategic goals (also called action plans) will usually be developed. It is important that these action plans be SMARTER:

- Specific
- Measurable
- Attainable
- Realistic
- Time-bound
- Ethical
- Recordable.



### 3.3 Analyse the external and internal environments for challenges

The next step in the formulation of strategies is to analyse the external and internal environments of the business.

Business environment	Industry analysis tools
Micro	SWOT analysis
Market	SWOT analysis and Porter's Five Forces
Macro	SWOT analysis and PESTLE analysis

#### A SWOT Analysis

A SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses/Limitations, Opportunities, and Threats involved in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

#### Pestel Analysis

PESTEL is an acronym that stands for Political, Economical, Social, Technological, Environmental and Legal. It is used to describe an analysis that is used for determining the opportunities and risks of global expansion.

Political, Economical, Social, Technological, Environmental and Legal issues often differ locally and even more so internationally. As a company looks to leverage the advantages that the democratization of technology, information and finance, and grow beyond the national borders that previously confined them, it is important that they consider a PESTEL analysis to accompany their SWOT analysis.

#### Porters Analysis

The Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation.

With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of your planning toolkit.



Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However it can be very illuminating when used to understand the balance of power in other situations.

Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

1. Supplier Power
2. Buyer Power
3. Competitive Rivalry
4. Threat of Substitution
5. Threat of New Entry.

### **3.4 Develop strategies in response to the challenges**

The final step is to develop a set of strategies that can be used to solve the problems that surfaced from the data collected.

Problem-solving skills and creative thinking can be used to create business ideas in the following ways:

- Looking beyond the first good idea that comes up and consider various options
- Being prepared to continuously look for more and better ideas
- Using indigenous knowledge, which is part of African philosophical thought and social practices that have developed over thousands of years.

#### **Problem-solving techniques**

- **Chair Technique**

Two people sit opposite each other to try and solve a problem. The one identifies the advantages and the other the disadvantages of a possible decision.

- **Empty Chair Technique**

Arrange several chairs in a circle with a chair in the middle. One person then moves from chair to chair, addressing the empty chair in the middle on different aspects of a problem.

- **Delphi Technique**

Ask decision-makers for their opinion without talking face-to-face through the use of questionnaires, email surveys, etc...

- **Nominal Group Technique**

Individual members consider a problem on their own and generate ideas. Each member then contributes one idea that gets recorded. Each idea is then discussed by the group. All the ideas are placed in order of importance.



- **Brainstorming**

Have a non-critical discussion where all ideas are considered and members can build on each other's ideas.

- **Forced Combinations**

This technique is often used after a brainstorming session. Members are provided with random words, pictures or objects. They must then create connections between the problem being discussed and the word/picture/object allocated to them. This can be achieved by asking: 'How does this picture provide a solution to the problem?'

- **SCAMPER**

Answer a set of questions using the letters from the word SCAMPER to come up with a new idea.

- What can be Substituted?
- What can be Combined?
- What can be Adapted?
- What can be Modified/Magnified?
- How can it be Put to other uses?
- Can the product be Eliminated?
- Look form a different angle – Reverse the problem.

- **Six Thinking Hats**

This is a technique which helps managers to look at important decisions and problems from a number of different [perspectives](#).

In meetings it has the benefit of blocking confrontations that happen when people with different thinking styles discuss the same problem.

## 4. Implementation of strategies

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### 4.1 Types of business strategies

#### 4.1.1 Integration strategies

Integration strategies are usually used when a business sees an opportunity to solve a problem by shortening the distribution channel of the product by combining two or more links in the channel.



Examples may include:

- Horizontal integration
- Vertical integration
- Backward integration
- Forward integration.

#### **4.1.2 Intensive strategies**

Intensive strategies are aimed at increasing sales and therefore the market share by making use of existing products and resources. Examples may include:

- Market penetration
- Market development
- Product development.

#### **4.1.3 Diversification strategies**

Diversification strategies involve developing new products and then selling them in new markets. Some examples include:

- Concentric diversification
- Horizontal diversification
- Conglomerate diversification.



#### 4.1.4 Defensive strategies

Defensive strategies are often used when a business is under pressure. Examples include:

- Retrenchment
- performance incentives
- Divestiture
- Liquidation.

#### 4.2 Requirements for successful strategy implementation

Strategy implementation is the 'action' part of the strategy. The strategy needs to be correctly implemented in order to be successful.

- Strategies must be managed according to the results
- Strategy implementation must focus on all the people involved in executing the strategy
- Strategies need to be resourced properly.

### 5. Evaluation of strategies

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Strategic management is a complex and ongoing process and needs to be evaluated throughout and after the implementation stage.

Information about the external environment is gathered by environmental scanning and is often referred to as the gathering of competitive intelligence. Internal information systems, referred to as business intelligence systems provide information on the business' performance.



## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 Which one of the following is not one of the four management elements used in strategic management:
- A planning
  - B organising
  - C delegating
  - D leading (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 PESTEL is an acronym that stands for.
- A Political, Economical, Social, Technological, Environmental and Legal
  - B Political, Equal, Social, Technological, Environmental and Legal
  - C Political, Economical, Social, Technological, Environmental and Late
  - D Political, Economical, Social, Teaching, Environmental and Legal (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 Which of the following is not an example of a diversification strategy:
- A Concentric diversification
  - B Horizontal diversification
  - C Upward diversification
  - D Conglomerate diversification (2)

### Question 4: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 4.1 Which of the following is not an example of a defensive strategy:
- A Liquidation
  - B Rentrenchment
  - C Giving up
  - D Performance incentives (2)

**Question 5: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

5.1 is Horizontal integration an example of:

- A Integration strategy
- B Defensive strategy
- C Attacking strategy
- D Intensive strategy (2)

**Question 6:** What are the possible benefits of forward integration? (8)

**Question 7:** Use your own words to explain backward integration. Use examples in your explanation. (10)

**Question 8:** What is a defensive strategy? Identify and briefly explain three defensive strategies that a business might use. (40)

**Question 9:** Explain how you think market penetration can be achieved. Provide your own examples. (10)

# Term 2 Topic 1 Social responsibility and corporate citizenship/CSR

## Overview

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- This topic deals with the concept of social responsibility and its implications for both business and communities

### Corporate Social Responsibility

- Nature and process of Corporate Social Responsibility
- Benefits to business and community
- Problems/challenges: business and community
- Components of Corporate Social Responsibility, e.g. environment, ethical corporate social investment, health and safety, etc.

### Corporate Social Investment

- Definition
- Nature of Corporate Social Investment
- Corporate Social Investment projects, (including human rights issues)
- Responsible business practice
- Challenges to the business:
  - A challenge to meet the longer term needs of the society within which they operate
- Legislative requirements,
  - Employment Equity Act,
  - Skills Development Act
  - The National Skills Development Strategy and Human Resources Development Strategy

# 1 The concept of social responsibility and its implications for both business and communities

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Social responsibility is a theory that a business or individual has an obligation to act to benefit of society. Social responsibility is a duty every individual or business has to perform so as to maintain a balance between the economy and the ecosystem.

Corporate social responsibility (CSR) means that a business takes responsibility for the social and environmental resources it uses, and puts something back into society and the environment

A shift in thinking in recent years has led to businesses aiming to not only make a profit but to be socially responsible and to be environmentally sustainable.

## 2 Meaningful contributions of time and effort

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### 2.1 Definition of Social Responsibility

Social responsibility means that a business or individual has an obligation to act in a way that benefits society. Social responsibility is a duty every individual or business has to perform so as to maintain a balance between the economy and the ecosystem.

### 2.2 Meaningful (as an individual) contribution of time and effort to advancing the well-being of others in a business context

Although it would be naïve to think that we can change the world by ourselves we still have an obligation and a duty to try and do the right thing.



## **2.3 Ways in which a business project can contribute towards the community**

This can be done in several ways such as:

- Contributions to NGOs
- Employees giving up their time to contribute to the community
- Involvement in issues that concern the community.

## **2.4 Corporate Social Responsibility**

### **2.4.1 Definition**

CSR is a form of corporate self-regulation whereby a business monitors and ensures its compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

CSR can be divided into two main categories: primary social responsibility and broad social responsibility. The primary responsibility refers to those connected directly to the business whilst the broad social responsibility refers to the community as a whole.

### **2.4.2 Nature and process of Corporate Social Responsibility**

Businesses are encouraged to be more socially responsible both by government, business stakeholders and the community as a whole.

In order that the CSR activities of a business are meaningful and make a positive contribution the following processes must be put in place:

- A CSR programme or activity must be planned
- Employees have to be put in charge and divided into teams to drive the planned CSR activity
- The activity must have identifiable and measureable impacts on the community
- The CSR programme must be monitored and evaluated for improvements.



### 2.4.3 Benefits: business and community

CSR can have the following benefits for businesses:

- Win new business
- Increase customer retention
- Develop and enhance relationships with customers, suppliers and networks
- Attract, retain and maintain a happy workforce and be an Employer of Choice
- Save money on energy and operating costs and manage risk
- Differentiate yourself from your competitors
- Generate innovation and learning and enhance your influence
- Improve your business reputation and standing
- Provide access to investment and funding opportunities
- Generate positive publicity and media opportunities due to media interest in ethical business activities.

### 2.4.4 Problems/challenges for the business and community

- Increased costs of production leading to higher prices or reduced profits and so decreased competitiveness
- The sums of money spent by firms on CSR are often dictated by few directors and may not reflect how shareholders want their money spent
- Consumers of CSR products often have to pay higher prices, reducing their ability to consume
- Acting in a CSR manner can mean that workers in less developed economies are sometimes further disadvantaged
- Smaller organisations that do not have significant resources to undertake extended CSR programmes may find themselves at a competitive disadvantage
- Loss of tax revenue for the Government as CSR some activities can be 'written off' against tax.

### 2.4.5 Components of Corporate Social Responsibility

The components of CSR include:

- Using sustainable practices that take care of the environment
- Using ethical corporate social investment and showing a real concern for all stakeholders in the business
- Taking into account the health and safety of all stakeholders in the business.



## 2.5 Corporate Social Investment

### 2.5.1 Definition

CSI is about how a business spends its money. CSI is primarily about money, time, skills and expertise that are invested to help communities or the environment.

**Social development** in a community is the development of services such as healthcare, sanitation, education, housing and water supply.

**Economic development** is the development of a community's economy through jobs, skills and infrastructure.

### 2.5.2 Nature of Corporate Social Investment

The nature of CSI depends on the business in question. Businesses are to link their Corporate Social Investment initiative with their business practices, especially when making use of the skills, expertise and equipment available within the business.

### 2.5.3 Corporate Social Investment projects

Corporate Social Investment projects are aimed at improving social and environmental conditions. Some businesses finance NGOs as part of their CSI programmes.

### 2.5.4 Responsible business practice

Responsible business practice towards stakeholders such as employees, suppliers and customers is important. Examples are following appropriate employee dismissal procedures, fair treatment, and fair remuneration.

### 2.5.5 Challenges to the business

#### Challenges to meet the longer-term needs of the society within which they operate

Legislation changes in South Africa and businesses need to take into account the following (this was covered in term 1):

- Employment Equity Act (EEA)
- Skills Development Act (SDA)
- BEE (Black Economic Empowerment) and compliance
- The National Skills Development Strategy (NSDS).

Another challenge is that businesses need to draw up and submit skills plans to SETAs for permission for training to take place. If it fails to meet the requirements, the training plan will not be approved.

### **Human Resource Development Strategy (HRDSSA)**

The following eight commitments have been made by HRDSSA II and will need to be reflected in SETA and NSF training plans:

1. Overcome shortages in the skills needed for the successful implementation of current strategies to achieve economic growth.
2. Increase the number of skilled people to meet the demands of our current and emerging economic and social development priorities.
3. Implement skills development programmes that are aimed at equipping recipients/citizens with skills to overcome related poverty and unemployment.
4. Ensure that young people have access to education and training that enhances opportunities and increases their chances of success in further vocational training and sustainable employment.
5. Improve technological and innovation capability and outcomes within the public and private sectors.
6. Ensure that the public sector has the capability to meet the strategic priorities of the South African developmental state.
7. Establish effective and efficient planning capabilities in the relevant departments and entities for the successful implementation of the HRDSSA.

## **Questions**

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**Question 1:** Answer the following question

List legislation that needs to be considered when implementing CSR. (8)

**Question 2:** Answer the following question

List three components of corporate social responsibility. (6)

**Question 3:** Answer the following question

Define the term social responsibility. (6)

**Question 4:** Answer the following question

Define the term corporate social responsibility. (6)





**Question 5:** Answer the following question

Define the term corporate social investment. (4)

**Question 6:** What are the challenges to businesses and communities of corporate social responsibility? Name and briefly describe two challenges for businesses and two challenges for the community. (8)

**Question 7:** Explain the importance of corporate social responsibility programmes in making a meaningful contribution to communities. (10)



# Term 2 Topic 2 Human rights, inclusivity and environmental issues

## Overview

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This topic examines the extent to which a business venture addresses issues such as human rights, inclusivity and environmental issues

Assessing a business venture against criteria to measure human rights, inclusivity, and environmental issues

- Human rights issues as defined in the Constitution of the Republic of South Africa
- Diversity in the business – issues of diversity such as poverty, inequality, race, gender, language, age, disability and other factors
- Environmental protection and human health
- Issues of equality, respect, and dignity
- Other economic, social, and cultural rights

## 1 The extent to which a business venture addresses issues such as human rights, inclusivity and environmental issues

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Human rights are rights inherent to all human beings, whatever our nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. We are all equally entitled to our human rights without discrimination. Human rights are inalienable. They should not be taken away, except in specific situations and according to a legal process.

### 1.1 Human rights issues as defined in the Constitution of the Republic of South Africa

The Bill of Rights is the cornerstone of South African democracy and is found in Chapter 2 of the National Constitution.



It enshrines the rights of all people in our country and affirms the democratic values of human dignity, equality and freedom.

Some of the more important points include:

- **Equality:** everyone has the right to be treated equally in the workplace and may not be discriminated against on grounds of race, gender, pregnancy, marital status, ethnic origin, colour, age, disability, religion, culture, sexual orientation and birth
- **Human dignity:** everyone has dignity and the right to have their dignity respected and protected
- **Freedom of expression:** this includes the right to have the freedom of the press and other media, to receive or impart information or ideas
- **Environment:** everyone has the right to an environment that is not harmful to their health.

## 1.2 Diversity in the business

Employees may come from different cultures, genders, religious orientations, race groups, and age groups. These factors may impact on how they interact with one another and other stakeholders in the business. Here are some issues that contribute to the diversity of the workforce:

- Poverty
- Inequality
- Race
- Gender
- Language
- Age Disability
- Disabilities
- Personalities
- Culture
- Religious orientation.

## 1.3 Environmental protection and human health

We have the right to live in an environment that is safe from harm. Environmental issues can cause health and other problems that could threaten the survival of the human race.



Things that you can do to help the environment include:

- Pay attention to how you use water
- Walk or ride your bike to work, school and anywhere you can because this helps reduce greenhouse gases
- Providing sanitation facilities to improve household hygiene
- Recycle
- Reuse
- Calculating the carbon footprint of the business and putting measures in place to reduce it.

#### **1.4 Issues of equality, respect and dignity**

People of different races, languages, genders, etc., as mentioned in the Bill of Rights, are regarded as equal in the eyes of the law and have the right to equal opportunities in the workplace.

Respect is defined as 'due regard for the feelings, wishes, rights or traditions of others'.

Dignity means that one has the right to respect and ethical treatment because we are equal.

#### **1.5 Other economic, social, and cultural rights**

Other rights may include:

- Economic rights
- Social rights
- Cultural rights.

#### **1.6 Criteria for measuring human rights within a business**

<b>Criteria for measuring human rights issues</b>
1. Does the business uphold affirmative action policies, employment equity and black economic empowerment?
2. Does the business support the development of women into leadership positions?
3. Does the business recognise women's abilities to do jobs that were traditionally considered men's work, such as engineering and construction?
4. Does the business uphold the rights of women in pregnancy, as detailed in Chapter 3 of the Basic Conditions of Employment Act?

5. Does the business offer equal opportunities to employees, regardless of their marital status?

6. Does the business offer equal opportunities to employees, regardless of their ethnicity or social origin?

7. Does the business discriminate against employees or potential employees on the basis of sexual orientation? For example, does it refuse to employ homosexual people, or prevent homosexual employees from advancing to positions of leadership?

8. Does the business discriminate against employees or potential employees on the basis of age? For example, does it refuse to employ older people, or force older employees to leave?

9. Does the business discriminate against employees or potential employees with disabilities? For example, does it refuse to employ such people, or refuse to accommodate the needs of the people with disabilities whom it does employ?

10. Does the business discriminate against employees or potential employees on the basis of their religion? For example, does a business run by a Muslim owner refuse to employ Jewish or Christian people?

11. Would the business treat employees differently if it found out about issues of conscience (for example, if employees were anti-war) or belief?

12. Does the business discriminate against employees or potential employees on the basis of culture?

13. Does the business discriminate against employees or potential employees on the basis of language, to the extent that fluency in a particular language is not a requirement for doing the job properly?

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 The Bill of Rights is found in this chapter of the Constitution:
- A 2
  - B 4
  - C Not at all
  - D 8 (2)

### Question 2: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 2.1 Environmental issues can cause health and other problems that could threaten the survival of the human race. (2)
- 2.2 Everyone has dignity and the right to have their dignity respected and protected. (2)

### Question 3: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 3.1 Employees are not allowed to come from different cultures, genders, religious orientations, race groups, and age groups. (2)
- 3.2 Everyone has the right to be treated equally in the workplace and may not be discriminated against on grounds of race, gender, pregnancy, marital status, ethnic (2)

### Question 4: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 4.1 Freedom of expression: This includes the right to have the freedom of the press and other media, to receive or impart information or ideas. (2)
- 4.2 There is nothing you can do to help the environment. (2)



**Question 5:** What is the link between South Africa's Constitution and human rights? (4)

**Question 6.** Why should businesses address issues of human rights, inclusivity, environmental protection and socio-economic rights? (4)

**Question 7:** Name four Acts that protect the oceans and the animals that live in them. (4)

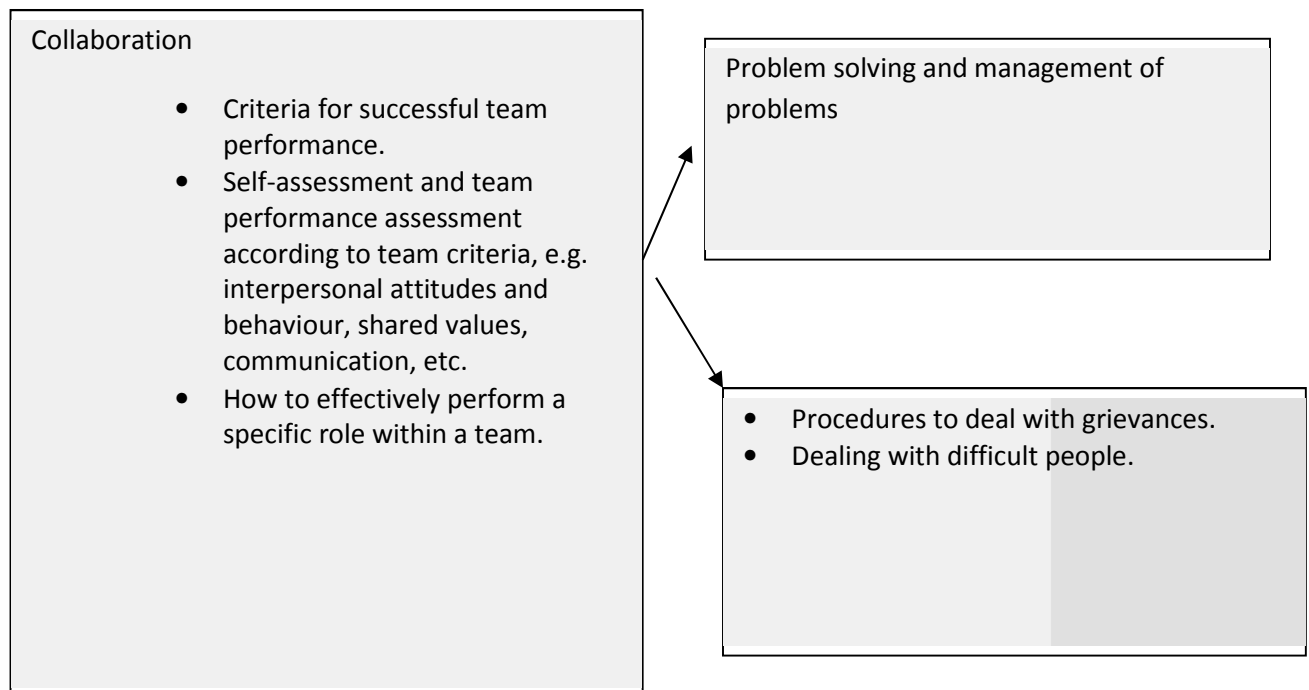
**Question 8:** Describe socio-economic rights, giving three examples from the Universal Declaration of Human Rights. (5)



# Term 2 Topic 3 Team performance assessment, conflict management and problem solving

## Overview

This topic deals with collaboration with others to contribute towards the achievement of specific objectives





# 1 Collaboration with others to contribute towards the achievement of specific objectives

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It is very important that people in a business work in collaboration with one another to help achieve the businesses objectives. The word collaboration means very simply working together to achieve a goal.

## 1.1 Criteria for successful team performance (recap)

In grade 10 you learnt about the criteria that need to be met in order for a team to be successful:

- Clear objectives
- Openness
- Mutual respect
- Support and mutual trust
- Commitment
- Interpersonal relationships
- Individual development opportunities
- Reviewing the team's progress.

## 1.2 Self-assessment and team performance assessment according to team criteria

The following guidelines can be used to effectively perform a specific role within a team:

- Identify each individuals behavioural strengths and weaknesses so that they can be given a suitable role in the team
- Clearly define each member in the teams role with clear boundaries and instructions, in order to minimise conflict related to role ambiguity
- Role and work overload needs to be avoided to ensure effective performance. When circumstances call for it members should take on more than one team role to accomplish shared objectives.



### 1.3 The characteristics of successful teams:

- The team has a clear sense of purpose with a clearly defined mission and objectives that every team member understands.
- The objectives of the team are broken down into clear goals for each team member to achieve and fulfil.
- The team must have a clear set of processes and procedures for their work. This will allow work to be co-ordinated and organised.
- The team members must have a sense of individual responsibility towards the values, goals and objectives of the team. This creates an important sense of belonging and value within the team.
- The team must have a balance of the necessary skills, knowledge, experience and expertise to achieve the objectives.

## 2 Problem solving and conflict management

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### 2.1 Problem solving and the management of problems that arise from working with others or in teams

Grievance and disciplinary procedures along with other in house company procedures can be used to deal with problems that arise.

In Grade 11 you learnt about The Thomas-Kilmann model for conflict management. This can be used when problems arise or to allow third-party intervention where the parties involved express their concerns in the presence of a conciliator (no judgement is formed) or a mediator (suggestions are made that are non-binding).

### 2.2 Correct procedures to deal with grievances

If a member of a team is unable or unwilling to cooperate to resolve a problem then the correct grievance procedure needs to be followed.

#### Stage 1:

- The employee should approach their immediate superior to report the grievance
- The grievance should be addressed as soon as possible – no later than three working days after it is reported. If not resolved, the aggrieved employee should proceed to the next stage.

## Stage 2:

- A meeting should be requested with the immediate superior and a grievance form drawn up to indicate the nature of the grievance
- The superior may respond in writing or set up a meeting. If a meeting is held, the employees involved are allowed to bring representatives and witnesses
- The responsible person (supervisor) who deals with the grievance must attempt to resolve the grievance in ten working days. The decision of the arbitrator is final
- If the aggrieved employee finds it necessary they may resort to an external dispute resolution mechanism such as the CCMA.

### 2. 3 Different ways of dealing with difficult people (personalities)

You can try the following:

- Be calm and in control of the situation
- Try to understand the person's intentions and why they have reacted in this way
- Get input from others
- Let the person know what your intentions are and the reasons for your actions
- Build rapport by re-establishing personal connection with colleagues instead of relying on emails, messaging and computers
- Treat the person with respect
- Ask someone in authority for their input into the situation
- If you have already tried everything above and the person is still not responding, ignore them.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is a model for conflict management:
- A The Angus model
  - B The Thomas-Kilmann model
  - C The Muppet model
  - D The Andrew-Kilmann model (2)

### Question 2: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 2.1 If the aggrieved employee finds it necessary they may resort to an external dispute resolution mechanism such as the CCMA (Commission for Conciliation, Mediation and Arbitration). (2)
- 2.2 If a member of a team is unable or unwilling to co operate to resolve a problem then the correct grievance procedure needs to be followed. (2)

**Question 3:** Identify and describe the steps that are used to resolve team conflict. (15)

**Question 4:** Describe the characteristics of an effective team. (10)

**Question 5:** Explain why a team's performance must be assessed. (4)

# Term 2 Topic 4 Business sector and its environments

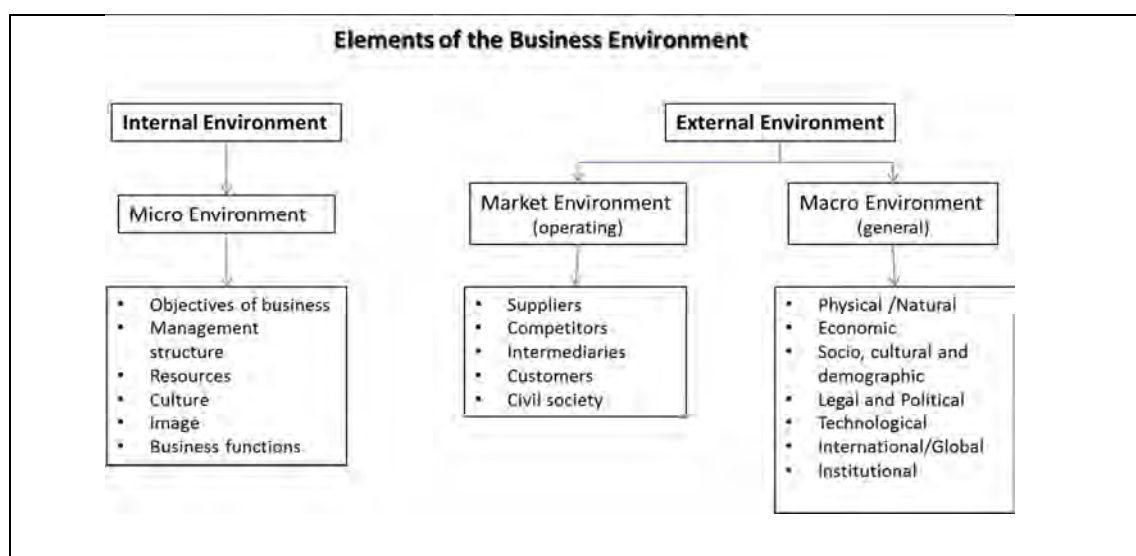
## Overview

This topic describes the three environments related to the different business sectors and the extent to which a business can control these environments

### 1 Economic sectors and business environments

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The primary sector (agriculture, fishing, and extraction such as mining) makes direct use of natural resources, the secondary sector (roughly the same as manufacturing) and the tertiary sector (also known as the service sector) are the different economic sectors in which businesses operate.



Try to remember the following points about the business environment:

- The business environment is multifaceted
- The components of the business environment are interdependent
- The business environment is very uncertain
  - The business environment is dynamic
  - Changes that occur in the business environment have both short-term and long-term effects, which can be either positive or negative.

## 2 The control businesses from the different economic sectors have over the business environment

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Although businesses have very limited control over the environments within which they operate they can try and exert some control.

### 2.1 Control over the micro environment

The micro environment includes all the internal factors of the business. Via an internal control system management of a business should have full control over all the elements of its micro environment. The micro environment of a business is divided into 8 business functions. It is the role of management and entrepreneurs of a business to ensure the full and effective operation of these functions. In this way, the micro environment can be fully controlled. These 8 functions are described below:

Business Function	Descriptions
Purchasing	is the process whereby raw materials are obtained in order to make the product or deliver a service.
Human Resource Management	involves the managing of current staff and the employing of new staff in a business.
Production	is the process whereby the product is made or the service is delivered.
General Management	determines the direction of the business.
Finance	ensures all resources are available for the operation of the business.
Marketing	means understanding and satisfying the needs of the customers
Public Relations	involves maintaining a favourable public image by, and of the business.
Administration	needs efficient and organised systems to ensure the smooth running of the business.

Internal control consists of five inter-related components:

- Control environment
- Risk assessment
- Control activities
  
- Information and communication
  
- Monitoring.

## **2.2 Control over the market environment**

The market environment exists just outside of the business and includes elements like customers, suppliers, etc... An individual business has limited control over the elements of the market environment and can at best try to influence the market environment in order to benefit from opportunities and limit the impact of the threats.

Management need to look at:

- Suppliers
- Competitors
- Intermediaries
- Customers
- Civil society.

Within the three businesses sectors, primary, secondary and tertiary, each business will have to be aware of its market environment and ways to deal with it.

## **2.3 Control over the macro environment**

The macro environment is the environment directly outside the market environment. The macro environment consists of all the external elements that exist outside of a company's control that can significantly impact its performance and ability to compete in its marketplace. Examples of macro environment elements are the economy, government policy-making, technology, social conditions, and nature. For companies with a global foot-print, their exposure to macro environment elements is magnified.



Although a business cannot control the macro environment it can try to have some involvement or input into it in order to benefit the business. Examples may include lobbying political groups, social responsibility initiatives, etc...



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<b>Macro economic factors</b>	<b>Description</b>
Physical	Climate change(s) can affect the success of the primary sector and therefore, all the business sectors.
Political	Political events worldwide can threaten a business
Economic	The economic environment changes all the time, and it is vital that businesses watch key economic indicators.
International	International trade, (for example, imports and exports),and competition are factors affecting the success of businesses worldwide.
Technological	Changes in technology can have a great affect on the micro and market environments of a business.
Social	The business location, its accessibility, its suitability to customers is important.

Indicators in the macro environment, such as economic indicators, may provide the opportunity to make changes in a business, but many changes that occur are unpredictable. Natural disasters are definitely unpredictable events. A business must try to

- participate in identifying new opportunities and reducing risk
- more accurately predict future events
- contribute to a healthier, protected, more skilled and more productive workforce
- protect natural resources and meet consumer needs in a sustainable way

### 3. Globalization and competitiveness

- Business networks are becoming increasingly globalized as more and more companies compete internationally.
- Globalized markets intensify competitive pressures and causing the center of economic gravity to shift to new regions.
- South Africa needs to ensure our global competitiveness by capturing long-term, leading positions in tomorrow's markets.
- To succeed in today's global economy, companies must think and act internationally.

#### Questions

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##### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 The primary sector makes use of:
- A unnatural resources
  - B intellectual capital
  - C natural resources
  - D is about manufacturing. (2)

##### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 For companies with a global foot-print, their exposure to macro environment elements is:
- A non-existent
  - B magnified
  - C smaller
  - D less. (2)

**Question 3: True/false**

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 3.1 The tertiary sector is sometimes referred to as the service sector. (2)
- 3.2 The macro environment is the environment directly outside the market environment. (2)

**Question 4:** What is an 'environment'? (2 )

**Question 5:** Give three examples of physical/environment challenges faced by a business and their possible effects. (6)

**Question 6:** What do you think are the main social challenges faced by a developing country such as South Africa? (3)



# Term 2 Topic 5 Management and leadership

## Overview

This topic deals with differences in management and leadership styles.

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- The difference between leadership and management.
- Leadership styles, e.g. democratic, autocratic, etc.
- Theories of management and leadership, e.g. leaders and followers, situational leadership, transitional and transformational leadership, etc.
- The role of personal attitude in success and leadership.

## 1 The differences between leadership and management

---

Effective leadership and effective management are needed for a business to be successful. Let's look at the characteristics of leadership and management.

### 1.1 Leadership

Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent.

A leader should:

- Be visionary, giving orders, inspire people and provide them with **direction**
- Look for opportunities and encouraging change and **innovation**
- Communicate effectively and have good listening skills
- Motivate people and have good people skills
- Set an example for others to follow
- Encourage effective team work.



## 1.2 Management

You previously learnt that the main tasks of a manager are planning, organising, leading and control.

### 1.3 Differences between leadership and management

- Leadership is setting a new direction or vision for a group that they follow, ie: a leader is the spearhead for that new direction
- Management controls or directs people/resources in a group according to principles or values that have already been established.

<b>Leadership</b>	<b>Management</b>
Is about inspiring, helping, listening, developing and communicating.	Managing through planning, organising, commanding, controlling and disciplining.
Is a process.	Is a position.
Natural authority and influence.	Delegated authority and influence.
Interdependent decision-making.	Independent decision-making.
Collaborative and cooperative.	Competitive.
Manages people by managing emotions, relationships and communication.	Manages things like processes, procedures and resources.
Embraces change as an opportunity for growth and development.	Perceives change as a threat to productivity and planned objectives.
Develops trust, encouraging growth through experience and listening to the ideas of others.	Emphasis on doing things right. Rules and processes are used to achieve objectives.
Strategic focus includes long-term change, developing others and taking risks.	Focus towards short term productivity, goals and objectives.
Seeks freedom to explore new ideas and to encourage more personal and organisational flexibility.	Seeks to control and create consistency and predictability through effective processes and procedures.
Is rewarded for the success of others.	Is rewarded for personal performance and achievement.

## 2 Leadership styles

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There are many different leadership styles. We are going to focus on four.

### 2.1 Democratic/Participative style

This leadership style takes into consideration the needs and input of followers and encourages group involvement. This type of leader includes employees in decision making but has the **authority** to make the final decision.

### 2.2 Autocratic style

This leadership style involves telling employees what to do and how they should carry out their tasks without asking them for input or ideas. These leaders have all the authority and make all the decisions themselves.

### 2.3 Bureaucratic style

This leadership style involves relying on organisational rules and policies.

### 2.4 Laissez faire/delegative style

This leadership style involves telling employees what to do but giving them leeway to decide how to carry out their tasks.

## 3 Theories of management and leadership

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Leaders may have to change their approach and style from time to time. As such it is important for them to be aware of some of the different leadership theories.

### 3.1 The leader follower theory

This is a leadership theory that focuses on the interactions between leaders and followers. The interaction between leaders and followers helps to shape the success or failure of an organization. The very concept of a team-oriented workplace, commonality toward goals and a productive work environment stem from the leader-follower interaction.

### **3.2 Situational leadership**

This involves using a combination of leadership styles to suit a particular situation. They are able to look at a situation and consider various factors, such as time limits, relationship with subordinates and the skills and capability of subordinates when choosing a particular leadership style.

### **3.3 Transitional and transformational leadership**

This is where the leader inspires followers with a shared vision, and motivates and empowers them to do more than they would usually do or thought they could do.

### **3.4 Charismatic leadership**

In many ways this is similar to transformational leaders, in that they are also enthusiastic and inspire and transform (change) the people they lead. They guide people by using charm and self-confidence and their personality attracts attention.

### **3.5 Transactional leadership**

This approach is where the leader creates clear structures, roles and responsibilities so that subordinates know exactly what is expected of them and what rewards they will get for following orders.

### **3.6 Servant leadership**

The servant leader focuses more on his followers than on him- or herself and argues that the most effective leaders are servants of their followers.

## **4 Personal attitude in success and leadership**

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Attitude can be defined as being A settled way of thinking or feeling, typically reflected in a person's behaviour. Success in leadership will depend on your personal attitude. Positive attitudes that are important for successful leadership include:

- Enthusiasm
- Belief
- Drive
- Courage/persistence.



## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 Which of the following is not a personal attribute necessary for success as a leader:
- A Belief
  - B Negativity
  - C Courage/persistence
  - D Drive. (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is not a recognised leadership style:
- A Bureaucratic style
  - B Autocratic style
  - C Democratic style
  - D Narcissistic style. (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 Which of the following is a characteristic of a good leader:
- A Inspires people
  - B Negative
  - C Alcoholic
  - D Criticises people. (2)





**Question 4:** Tabulate SIX differences between leadership and management. (12)

**Question 5:** Identify and discuss three leadership styles. Describe the characteristics of the style and when it is appropriate to use. (3 × 6)

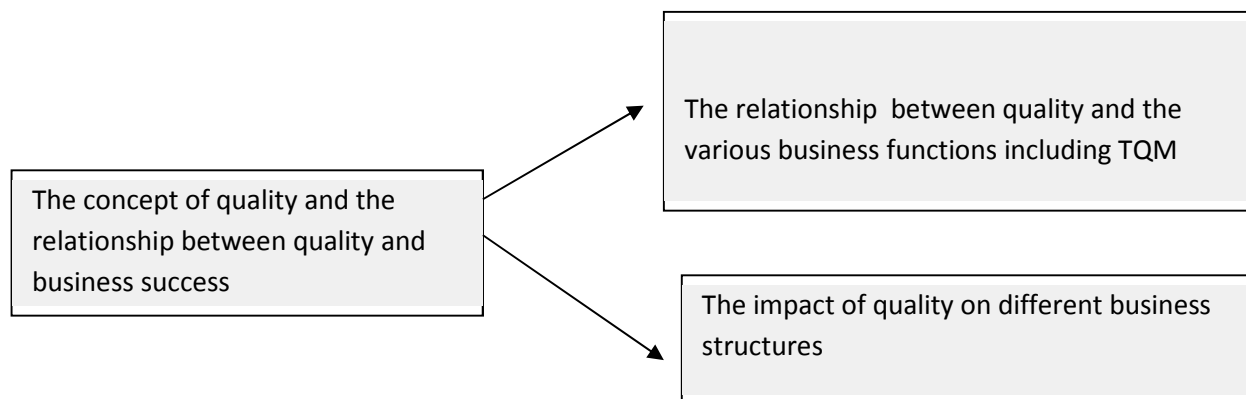
**Question 6:** Identify and explain FIVE attributes of a positive attitude. (5 × 4)



# Term 2 Topic 6 Quality of Performance

## Overview

This topic deals with quality of performance and how quality affects the success of a business.



## 1 The concept of quality

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Quality is important to businesses but can be quite hard to define. A good definition of quality is:

**“Quality is about meeting the needs and expectations of customers”**

Customers want quality that is appropriate to the price that they are prepared to pay and the level of competition in the market.

Key aspects of quality for the customer include:

- Good design
- Good functionality
- Reliable
- Consistency
- Durability
- Good after sales service
- Value for money.



When managers manage a business well, they control the following functions: purchasing, production, marketing, finance, administration, personnel (also known as Human resources), public relations and general management.

Some of the advantages of good quality are:

- customer loyalty
- strong brand reputation for quality
- as the product is perceived to be better value for money, it may attract a higher price
- fewer returns and replacements lead to reduced costs
- attracting and retaining good staff.

### 1.1 SABS

The **South African Bureau of Standards (SABS)** is a South African body that was established by the government in 1945 to promote and maintain quality and standardisation of goods and services. Having their logo on products such as electrical appliances ensures that certain regulations regarding safety have been met.

## 2 The relationship between quality and the various business functions

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### 2.1 Quality in the human resources function

A healthy working relationship between employer and employees, good working conditions and proper discipline and motivation will improve the performance of employees.

Some tasks of the Human Resources function that will ensure continuous quality improvement:

- Setting up an effective organisational structure
- Organise training programmes and continuous skills development
- Promote employee motivation to ensure job satisfaction and improve performance levels
- Implement an employee and management performance management system (PMS).

### 2.2 Quality in the purchasing and production functions

Purchasing and production functions coincide because the production department needs materials to work with. The materials are purchased by the purchasing dept.

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They need to know each other's timelines and deadlines, e.g. prod. needs to know how much lead time to give purchasing to get the materials.

The principal procedures in a purchasing department can be listed as follows:

1. Receive purchase requisitions
2. Review and evaluate requisitions
3. Aggregate and place orders
4. Follow-up and expediting
5. Payment authorization
6. Record-keeping.

### **2.3 Quality in the financial function**

Finance is critical to any business. All areas of the business need to have up-to-date information about its financial health. Financial reporting is a major part of this function.

#### **Financial accounting**

This is the process of summarising historical financial data taken from the accounting records of the business.

#### **Management accounting**

Management accounting provides accounting information relating to the future, which helps managers make decisions that will affect the future of the business.



## **2.4 Quality in the marketing and public relations function**

A business needs to co-ordinate and combine all seven marketing policies in order to maximise their impact:

- Product
- Price
- Place
- Promotion
- People
- Processes
- Physical environment.

## **2.5 Quality in the administration function**

Effective systems will help ensure the smooth running of the business.. Quality information is information that is accurate, complete, meaningful, easily understood and available when needed by users.

## **2.6 Quality in the general management function**

Strategic planning, which is the responsibility of top management, is crucial to ensure quality performance. The management function is involved in all the other business functions and is ultimately responsible for the overall performance of the business.



## 3 The impact of quality on different business structures

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### 3.1 Small businesses

In small businesses (e.g. sole trader), most, if not all, of the business functions can be combined.

Factors that might affect the quality of the product or service of a small business include:

- One business function is ignored due to time constraints
- Inability to negotiate good prices when buying trading stock or raw materials
- While quality systems and quality control in small businesses could be effective, they are not always documented. This means that errors or deviations could re-occur
- Failure to keep sufficient stock levels as a result of lack of storage facilities or lack of funds
- Limited funds to spend on marketing
- There is limited budget for human resources
- Lack of expertise in any other function will affect the overall quality of performance of the small business
- High cost to outsource certain functions to experts.

### 3.2 Large businesses

Large businesses may have individual departments with special skills and training that deal with the different business functions. Other factors that may affect quality in a large business may include:

- Ability to afford specialised and skilled employees
- Ability to afford quality equipment and machinery and implement advance technological processes and procedures to ensure quality products and services
- Ability to implement well-planned quality systems which describe the policies and procedures for business performance and ensure quality products and services
- In large business with tall organisational structures, it often takes longer to detect problems or respond to weaknesses.



### 3.3 Total Quality Management (TQM)

TQM is a management system that focuses on continuous quality improvement throughout the whole business.

The three basic principles of TQM are to:

- focus on achieving customer satisfaction
- look for continuous improvement in all the business's processes, products and services
- ensure the full involvement and co-operation of the all employees in improving quality.

**The elements of TQM include:**

- Continuous skills development
- Teamwork
- Total client satisfaction
- Continuous improvements to processes and systems
- Organisational culture

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 Key aspects of quality for the customer do not include:

- A Reliability
- B Durability
- C Non existent after sales service
- D Value for money

(2)



**Question 2: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is not an advantage of good quality:
- A Customer loyalty
  - B Brand loyalty
  - C More returns
  - D Product attracts a higher price (2)

**Question 3: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 Which one of the following is not one of the three basic principles of TQM:
- A focus on achieving customer satisfaction
  - B ensure the full involvement and co-operation of the all employees in improving quality
  - C Ensure management cover up for employee errors
  - D look for continuous improvement in all the business's processes, products and services (2)

**Question 4: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

- 4.1 Which of the following is one of the seven marketing policies:
- A Product
  - B Year end functions
  - C Accounting
  - D IT systems (2)





**Question 5: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

5.1 Financial accounting is:

- A the process of summarising historical financial data taken from the accounting records of the business.
- B the process of adding up all income and deducting all expenditure
- C the process of helping managers make decisions that will affect the future of the business.
- D The process of tax avoidance (2)

**Question 6:** Explain what you understand by the term - quality of performance. Use an example to help you. (6)

# Term 3 Topic 1 Investment securities

## Overview

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This topic explores what an investment is, the kinds of investments available to businesses and individuals and the returns that an investor can expect.

Types of investment opportunities

Assurance vs Insurance

Returns of investments

- Yield/earnings
- Calculating simple and compound interest

## 1 A range of available business investment opportunities

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### 1.1 Distinguish between assurance and insurance

The term insurance refers to cover for a possible event such as theft or a fire. Assurance is cover for an event that is certain to happen such as retirement or death. Pension and provident funds are forms of assurance.

### 1.2 Compulsory and non-compulsory insurance

Non-compulsory insurance is any insurance that is not compulsory to have. Compulsory insurance is any form of insurance required by law such as U.I.F, unemployment insurance.

### 1.3 Viability and relevance to both individuals and businesses

It is important that businesses and individuals have protection against possible risks and losses. Insurance companies sell protection in the case of loss or damage in the form of an insurance policy.

#### 1.3.1 Viability and relevance for individuals

Insurance and assurance products offer many benefits for individuals. They can be forms of saving, protect people and their dependants against loss of income and restore them back to the same financial position they were in before an unexpected event occurred. In some cases individuals can borrow against policies.



### 1.3.2 Viability and relevance to businesses

Insurance and assurance products offer many benefits for businesses. They can be forms of saving, protection for the firm and its employees against loss of income and can restore it back to the same financial position it was in before an unexpected event occurred. In some cases businesses can borrow against policies. Insurance can protect the business from claims made by members of the public.

## 2 Types of investments

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An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in the future.

Investments can be categorised as low risk, moderate risk or high risk. The rule of investing is that the bigger the risk you take, the greater the possible reward.

Examples may include:

- Shares
- Property
- Savings
- Stock options.

### 2.1 Business investments

You can invest in an existing business by buying shares or by starting a new business.

#### 2.1.1 The Johannesburg Stock/Security Exchange

The Johannesburg Stock Exchange (JSE) is a world class securities exchange. It has operated as a market place for the trading of financial products for more than 120 years to connect buyers and sellers in four different markets: equities, equity derivatives, commodity derivatives and interest rate products.

The JSE is one of the top 20 exchanges in the world and is a member of the World Federation of Exchanges (WFE).

The JSE also provides companies with the opportunity to raise capital through its boards: Main Board, Africa Board and AltX. In addition the JSE is a major provider of financial information. The JSE is a fully electronic, efficient, secure market.



## 2.1.2 Types of shares

The basic types of shares are:

- **Preference shares**  
These shares are more expensive because the owner is entitled to preferential dividends. In the first instance the shareholder is guaranteed a fixed dividend based on the **par value** of the share. In the second instance, preferential shareholders receive dividends first.
- **Ordinary shares**  
Ordinary shares are less expensive than preferential shares. Shareholders of ordinary shares receive dividends after preferential dividends have been paid.
- **Founding shares**  
These shares are assigned to the founding members and promoters of the company. They will only receive dividends after everyone else is paid.
- **Bonus shares**  
Sometimes a company will decide to retain the profits for expansion of the business. In this situation they will not pay shareholders a dividend, but they may issue bonus shares in place of the dividend. This means that shareholders own more shares and will collect more dividends in the future.

## 2.1.3 Unit trusts

Unit trusts offer a simple, and effective way of saving money. Unit trusts are collective funds that allow private investors to pool their money in a single fund, thus spreading their risk across a range of investments, getting the benefit of professional fund management, and reducing their dealing costs. Unit trusts are open-ended in contrast to investment trusts, which are closed funds. Different trusts have different investment objectives: investing for income or growth, in small companies or large, and in different geographical regions.

Reasons for investing in unit trusts include:

- *They are already well-diversified* : Unit Trusts buy into a good variety of shares and bonds thus, risks are well diversified
- *Less Stress* : *They are managed by professional Fund Managers.*
- *You can invest all over the world.* unit trusts are invested all over the world in various business sectors, giving more opportunities
- *You only need a small amount of investment to start with*
- *Redemption is immediate.* If you sell your stocks, it joins the queue awaiting to be bought by other investors.
- *It is relatively safe.* Because they are well diversified, thus risks are smaller. Fixed Income unit trusts are very safe and in the long run, these still perform better than your fixed deposits.
- *Good returns.* Over the long term, unit trust investment can reap very handsome returns.



## 2.2 Government retail bonds

Investing in government retail bonds means the investor lends money to the government for a number of years, and the government promises to pay the money back at a certain interest rate on a specific date. Fixed interest rates are offered on these bonds. These interest rates are usually higher than the interest rates offered on fixed deposits and money market accounts.

## 3 Returns

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Return on investment (ROI) measures the profitability of an investment.

### 3.1 Dividends

Dividends are a taxable payment declared by a company's board of directors and given to its shareholders out of the company's current or retained earnings. Dividends are usually given as money, but they can also take the form of shares or other property. Dividends provide an incentive to own shares in companies even if they are not experiencing much growth. Companies are not required to pay dividends.

### 3.2 Interest

Interest is a charge (at a particular rate) for the use of borrowed money. If you borrow money, it comes at a cost. Similarly, you can make investments and receive interest.

### 3.3 Capital gain

An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold. A capital gain may be short term (a year or less) or long term (more than one year). A capital loss is incurred when there is a decrease in the capital asset value compared to an asset's purchase price.

## 4 Calculations (interest, etc.)

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### 4.1 Interest

#### Compound vs simple interest

Simple interest is calculated as a simple percentage of the **principal amount** over an agreed period of time. Once this time has elapsed the calculation is reset to the principal amount.

Interest is calculated as follows:

$$\frac{\text{Capital amount}}{1} \times \frac{\text{Interest rate (p.a.)}}{100}$$



Compound interest is interest calculated on interest already earned. Therefore when compound interest is calculated the principal changes all the time as interest is added to it. Interest can be compounded annually, monthly or even continuously (daily or hourly).

## 4.2 Dividends

### 4.2.1 Dividend yield (DY)

A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows:

$$\frac{\text{Annual dividends per share}}{\text{Share price}}$$

### 4.2.2 Earnings yield (EY)

The earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each Rand invested in the share that was earned by the company.

$$\frac{\text{Earnings per share}}{\text{Share price}}$$

## 5 The difference between compound interest and simple interest

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### 5.1 Simple interest

Simple interest is defined as interest paid on the original amount only, and not on the interest accrued.

### 5.2 Compound interest

Compound interest is the interest earned not only on the original capital (principal) amount invested, but also on all interests earned previously.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 Which of the following is not a type of share:
- A Bonus share
  - B Preference share
  - C Interest payment
  - D Preference share (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is not a board on the JSE:
- A AltX
  - B The Main Board
  - C Africa Board
  - D Shipping Board (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 Which of the following is a form of an investment:
- A Buying property
  - B Spending money on CDs
  - C Spending money on alcohol
  - D Gambling (2)

### Question 4: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 4.1 Which of the following statements is incorrect:
- A The term insurance refers to cover for a possible event
  - B Assurance is cover for an event that is never going to happen.
  - C Unit trusts are collective funds that allow private investors to pool their money in a single fund
  - D The earnings yield shows the percentage of each Rand invested in the share that was earned by the company (2)

**Question 5: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

5.1 Which of the following statements is incorrect:

- A Simple interest is defined as interest not paid on the original amount only, and on the interest accrued
- B Interest is a charge (at a particular rate) for the use of borrowed money.
- C Compound interest is the interest earned not only on the original capital (principal) amount invested, but also on all interests earned previously
- D A dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. (2)

**Question 6: Multiple choice**

Choose the correct answer. Only write the letter of the answer you select.

6.1 Which of the following statements is not correct:

- A Investing in government retail bonds means the investor lends money to the government for a number of years
- B It is not important that businesses and individuals have protection against possible risks and losses
- C You only need a small amount of investment to start with unit trusts
- D Return on investment (ROI) measures the profitability of an investment. (2)

**Question 7:** List and briefly explain three types of shares traded on the stock exchange. (9)

**Question 8:** Explain the following terms:

- a) Interest. (2)
- b) Interest period.(2)
- c) Principal.(2)



# Term 3 Topic 2 Investment: insurance

## Overview

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This topic continues from the previous one and examines some of the basics about business and individual investment opportunities. It explains insurance and assurance as important life investments .

- Compulsory and non-compulsory insurance
  - Understanding life insurance and retirement annuities
  - Insurance of goods (compulsory and non-compulsory)
  - Calculation of over-insurance and under-insurance
  - Unemployment Insurance Fund (UIF)
  - Road Accident Fund (RAF)

## 1 Introduction

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Insurance is a form of risk management used to hedge against the risk of a possible future, uncertain loss. Insurance is defined as the transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a field of study and practice.



An insurance contract can decline a risk because of:

- a unsatisfactory claim history
- a policy having been cancelled by other insurers
- a history of unpaid debit orders
- the potential client being a moral risk
- non-disclosure of information that would affect the risk.

The following are important terms used with regard to insurance:

**Cession** - cession is the transfer of a policy from one person to another. A policy can be ceded in two ways:

- Outright cession

In this case, all rights in terms of the policy are transferred to the new owner (cessionary). The proceeds of the policy are paid directly to the cessionary and not to the previous owner or his/her estate.

- Collateral security cession

In this type of cession, the policy serves as security for a loan, for example. The cessionary's claim to the policy is limited to the amount of the cedent's liability.

**Excess** - An excess is the first amount payable by you in the event of a loss, and is the uninsured portion of your loss.

**Subrogation** - A term denoting a legal right that is reserved by most insurance carriers.

Subrogation is the right for an insurer to pursue a third party that caused an insurance loss to the insured.

**Surrender** - The early termination of an insurance product by the policyholder.



## 2 Understanding life insurance and retirement annuities

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### 2.1 Life insurance

This is a contract between the insured (policy holder) and the insurer, where the insurer promises to pay the beneficiary a sum of money upon the death of the insured person. Depending on the contract, other events such as a terminal illness may also trigger payment. The policy holder pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the benefits.

Life insurance is sometimes called long-term insurance because it covers long-term risks.

Other forms of long-term insurance:

**Endowment assurance** is a life insurance contract designed to pay a lump sum after a specified term (on its 'maturity') or on death. Typical maturities are ten, fifteen or twenty years up to a certain age limit. Some policies also pay out in the case of critical illness. Endowments can be cashed in early (surrendered) and the holder then receives the surrender value.

**Term assurance** is life insurance which provides coverage at a fixed rate of payments for a limited period of time, the relevant term. After that period expires, coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments or conditions. If the insured dies during the term, the death benefit will be paid to the beneficiary.

**Disability cover** covers you against loss of income should an unforeseen event happen that might cause you to become disabled and permanently unable to earn an income.

**Trauma cover** will pay you a lump sum in the event that you suffer from a number of specified critical conditions, such as cancer or a heart attack.

**Funeral cover** will pay out a lump sum on the death of the person insured which helps to pay for funeral costs. This may form part of a life insurance policy.

## 2.2 Retirement annuity (RA)

A retirement annuity (RA) is a long-term method of saving for your retirement to ensure you have enough income in retirement to enjoy a comfortable life.

A retirement annuity will convert the lump sum amount in an employer or individually owned retirement plan into a regular monthly income stream. A retirement annuity may be offered as part of a company's retirement plan as a possible payment option. Retirees can also purchase a retirement or immediate annuity with their retirement funds from a life insurance company.

Advantages of RAs are:

- Guaranteed income
- No market fluctuation
- Tax efficiency
- Disciplined way to save
- Creditors cannot touch RAs
- Survivor benefits.

## 3 Insurance of goods (compulsory and non-compulsory)

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Goods and assets can be insured. In certain cases this may be compulsory and in other cases non-compulsory.

### 3.1 Compulsory insurance

Compulsory insurance is required by law before individuals or businesses may engage in certain activities.

Examples of compulsory insurance in South Africa include:

**Road Accident Fund (RAF)** is a state insurer established by statute. It provides insurance cover to all drivers of motor vehicles in South Africa in respect of liability incurred or damage caused as a result of a traffic collision.

**Unemployment Insurance Fund (UIF)** as prescribed by the Unemployment Insurance Act provides protection to workers who become unemployed. It prescribes claiming unemployment benefits for unemployment, maternity benefits, illness benefits, adoption benefits and dependents' benefits.



**Compensation for Occupational Injuries and Diseases Act (COIDA)** The Compensation for Occupational Injuries and Diseases Act (COIDA) states that employers must pay a certain amount of money into a central fund each month. The amount depends on how dangerous it is to work in the particular industry, how many workers are employed in the company and the wages paid to the workers. COIDA ensures that employers insure their employees against death or disability due to accidents at work.

**Public liability insurance** protects businessmen (as owners or landlords) against loss due to legal liability for injury or damage to the persons or property of the public.

### 3.2 Non-compulsory insurance

Although not required by law it can provide additional protection for you and your property or business. Insurance companies need to determine the probability of the risk that needs to be insured, also known as the insurable risk.

#### 3.2.1 Insurable risks

Examples of insurable risks include:

**Vehicle insurance** is purchased for cars and other road vehicles. Its primary use is to provide financial protection against physical damage and/or bodily injury resulting from traffic collisions and against liability.

**Fidelity insurance** is a type of insurance which is designed to protect a firm from losses caused by the dishonest acts of its employees.

**Money in transit** insurance is a policy in which the insurance company will pay if money is stolen or lost when it is being moved between two places, for example between a shop and a bank.

**Theft insurance** covers the insured for losses incurred during breakins and robberies.

**Fire insurance** is insurance against loss due to fire.

**Storm damage insurance** insurance indemnifies the insured against losses due to storms.



### 3.2.2 Non-insurable risks

It is important to note that not all risks can be insured. A risk that cannot be insured, either because the probability of a loss is too high, or because it cannot be measured actuarially.

Examples of non-insurable risks include:

- Nuclear war
- Changes in fashion
- Technological advances.

## 4 Calculation of over-insurance and under-insurance

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The Average Clause in an insurance policy that restricts the amount payable to a sum not to exceed the value of the property destroyed and that bears the same proportion to the loss as the face of the policy does to the value of the property insured.

### 4.1 Under-insurance

Under insurance may result in economic losses to the policy holder, since the claim would exceed the maximum amount that can be paid out by the insurance policy. While underinsurance may result in lower premiums paid by the policy holder, the loss arising from a claim may far exceed any marginal savings in insurance premiums.

For example if a business is insured for R50,000 but should have been insured for R100,000 then if the business makes a claim the insurance company will only pay out half of the claim because the business is underinsured by 50%.

Claim: R10 000

Insured For: R50 000

Replacement Value: R100 000

Under-Insurance Calculation:  $R10\ 000 \times R50\ 000$

R100 000

Claim Payment: R5 000

## 4.2 Over-insurance

Property or assets that are insured for more than their market value or book value then they are over-insured.

## 5 Unemployment Insurance Fund (UIF)

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The Unemployment Insurance Act provides protection to workers who become unemployed. It prescribes claiming unemployment benefits for unemployment, maternity benefits, illness benefits, adoption benefits and dependents' benefits.

The Unemployment Insurance Act and Unemployment Insurance Contributions Act apply to all employers and workers, but not to:

- workers working less than 24 hours a month for an employer;
- learners;
- public servants;
- foreigners working on contract;
- workers who get a monthly State (old age) pension; or
- workers who only earn commission.

Domestic employers and their workers are included under the Act since 1 April 2003.

Money is deducted from the employee's remuneration (monthly salary or weekly wages) and paid into the Unemployment Insurance Fund (UIF). The contribution that employers must deduct from a worker's earnings is 1% of total gross remuneration or earnings. In addition, the employer also contributes an equivalent 1% for every employee. The total contributions are calculated at 2 percent of your gross earnings.

## 6 Road Accident Fund (RAF)

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The Road Accident Fund is a state insurer established by statute. It provides insurance cover to all drivers of motor vehicles in South Africa in respect of liability incurred or damage caused as a result of a traffic collision. Liability incurred in relation to property damage (such as damage to vehicles, buildings, vehicle contents) is excluded from cover.



The RAF provides compulsory cover to all users of South African roads, citizens and foreigners, against injuries sustained or death arising from accidents involving motor vehicles within the borders of South Africa. This cover is in the form of indemnity insurance to persons who cause the

accident, as well as personal injury and death insurance to victims of motor vehicle accidents and their families.

## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 The following is not an advantage for investing in Retirement Annuities:
- A Tax inefficient
  - B Creditors can't touch them
  - C Guaranteed income
  - D Benefits accrue to survivors. (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Is not an example of a non-insurable risk:
- A Nuclear war
  - B Changes in fashion
  - C Cash in transit
  - D Advances in technology. (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 The following is not a form of long term insurance"
- A Nuclear war cover
  - B Funeral cover
  - C Trauma cover
  - D Disability cover. (2)

### Question 4: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 4.1 The Road Accident Fund is a state insurer established by statute. (2)
- 4.2 Property or assets that are insured for more than their market value or book value they are over-insured. (2)

### Question 5: True/false

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

- 5.1 Under insurance will never result in economic losses to the policy holder. (2)
- 5.2 Fire insurance is insurance against loss due to fire. (2)





# Term 3 Topic 3 Forms of ownership

## Overview

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This topic considers the extent to which a particular form of ownership can contribute to the success or failure of a business. You will need to recap the characteristics, advantages, disadvantages and comparison of the different forms of ownership, from previous years .

By the end of your revision you should be able to:

- Determine the extent to which a particular form of ownership can contribute to the success or failure of a business .
- Explain the characteristics, advantages, disadvantages and comparison of forms of ownership, i.e. sole trader, partnership, close corporation, private company and public company – focus on issues of capacity, taxation, management, capital, division of profits and legislation)
- Understand the forms of ownership (e.g. sole trader, company), and their impact on the success of a business

## 1 Characteristics, advantages, disadvantages and comparison of forms of ownership

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### 1.1 Sole Traders

A sole trader is a business that is run and owned by one person.

#### Advantages of being a sole trader:

- Easiest and least expensive form of ownership to set up
- Quick and easy decision making
- Owner takes all the profits made by the business
- The business is fairly easy to dissolve, if desired
- Owner gains experience in all aspects of business
- Reporting of financial information easy and straight forward
- Sole traders offer a more personalised approach.

## Disadvantages of being a sole trader

- Owner has unlimited liability and is legally responsible for all debts of the business
- Capital is limited to the creditworthiness of the owner
- Business has no continuity
- Not always possible to pay high salaries
- Owner could concentrate on strong points and neglects other functions
- Limited capital limits possibility for growth and expansion.

## 1.2 Partnerships

A partnership is a type of business that is run and owned by 2-20 people.

### Advantages of a partnership:

- Easy to establish
- Easier to raise funds because there is no limit on the number of partners allowed in a partnership
- Partners are motivated to work hard, because they share in the profits of the business
- Prospective employees may be attracted to the business if given the incentive to become a partner
- Partners share responsibilities and management of the business
- Partnerships are not forced by law to prepare audited financial statements.

### Disadvantages of a partnership:

- Partners are jointly and individually liable for the actions of the other partners
- Profits must be shared
- Decision making process can be complicated
- Partners have unlimited liability for the businesses debts.

## 1.3 Close Corporations

A close corporation is a type of legally registered business that is run by 1-10 people.

### Advantages of a close corporation:

- Registering is simple and inexpensive
- There are fewer legal and accounting requirements
- A CC is a legal entity and has continuity
- A CC can be converted to a private company
- More capital can be raised
- Members have limited liability
- Owners' interest in the CC does not need to be in proportion to their capital contribution
- CC may be exempted by CIPC from auditing its financial statements.

### **Disadvantages of a close corporation:**

- Cannot be more than ten members
- A member of a CC can be held personally liable for the losses of a CC if the member acts carelessly or is incompetent
- When applying for a loan, audited financial documents must be presented. Funds will not be given until auditing has been completed
- A CC is taxed as if it were a company, which may be higher than personal tax rates
- Difficult for members to leave the CC or to pay a member their portion, as all members must agree to dispose of a member's interest
- Like a company, a CC is taxed on its income and Standard Tax of Company (STC) based on member's dividends.

### **1.4 Companies**

We must differentiate between profit companies and non-profit companies. In this topic we are looking at companies whose aim is to make a profit.

There are four types of profit companies:

- private company (Pty Ltd)
- personal liability company (Inc.)
- public company (Ltd)
- state-owned company (SOC Ltd).

### **Advantages of a private company:**

- Unlimited number of shareholders.
- The company has continuity
- Shareholders have limited liability.
- Adaptable to small and large businesses.
- Private company is a legal person and can therefore sign contracts in its own name.
- The new act forces personal liability on directors who knowingly participate in carrying out business in a reckless or fraudulent manner.
- A private company is not required to file its annual financial statements with the commission.
- Financial statements are private and not available to the general public.
- Board of directors with expertise/experience can be appointed to take decisions and delegate responsibility.



### **Disadvantages of a private company:**

- Subject to many legal requirements.
- Difficult and expensive to establish compared to close corporation and sole proprietorship.
- The MOI forbids a private company to transfer its shares to any member of the public because the company is not listed on the JSE.
- A private company's annual financial statements must be reviewed by a qualified person, which is an extra expense to the company.
- Pays tax on the profits of the business and on declared dividends.
- Must prepare annual financial statements.

### **Advantages of a public company:**

- Company has continuity of existence.
- Company is a separate legal person.
- Public company can be owned and managed by only one shareholder and three directors. This allows individuals to start a public company.
- Shareholders have limited liability.
- Additional capital can be raised by issuing more shares or debentures.
- Shareholders can sell/transfer their shares freely.
- The public have access to the company's information and this could motivate them to buy shares from a company.

### **Disadvantages of a public company:**

- Shareholder may be allowed little or no input into the affairs of the company.
- Due to legislation, decisions take longer and there may be disagreements.
- Huge expenses when setting up a company (legal, accountants, taxes, consultants, etc.)
- More people to share profits with (less income).
- Financial affairs must be made known publicly (this information could be used to competitors' advantage).

## **2 Types of ownership and their impact on the success of a business**

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As we have seen there are advantages and disadvantages to different forms of ownership. The following factors need to be considered before choosing one:

- Formation procedures and costs involved
- Continuity and dependence of the business on its founders
- Legal liability and personality
- Taxation
- Management and control
- Capital requirements.



## Questions

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### Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 1.1 Which of the following is not an advantage for sole traders:
- A Owner takes none or very little of the profits of the business
  - B Cheap to set up
  - C Owner gets experience in all aspects of the business
  - D Easy to dissolve. (2)

### Question 2: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 2.1 Which of the following is not an advantage of a partnership:
- A Relatively easy to establish
  - B Partners motivated to make money
  - C Easy to raise money as there are no limits on number of partners
  - D Partners can be jointly liable for debts. (2)

### Question 3: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 3.1 The following is not a disadvantage of a private company:
- A Company is a separate legal person
  - B Must prepare annual financial statements
  - C Must pay tax on profit and declared dividends
  - D Its annual financial statements must be reviewed by a qualified person. (2)

### Question 4: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 4.1 Which of the following is a type of profit company:
- A Partnership
  - B Sole trader
  - C Private company
  - D Close corporation (2)

### Question 5: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

- 5.1 Which of the following is not an abbreviation for a profit company:
- A Pty Ltd
  - B SOC Ltd
  - C Ltd
  - D CC(2)



**Question 6:** Describe how the following aspects may be beneficial or not to a partnership (i.e. look at :the advantages and disadvantages).

- a) Capital (3x2 marks)
- b) Taxation (4x2 marks)
- c) Division of profits (3x2 marks)

**Question 7:** Lindiwe is a qualified hairdresser who has always wanted to set up a beauty parlour. She has saved R5 500 and the bank is willing to give her a loan of R4 000. However, in order to start the business she needs at least R15 000. She really needs your advice.

- a) What type of business would you recommend she forms? (2)
- b) Motivate your answer (give 3 reasons). (3)

