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TERM 1

CHAPTER 1

INFLUENCES AND CHALLENGES OF THE BUSINESS ENVIRONMENTS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Outline the components of the micro, market & macro environments. (Recap)
- Explain the reasons why businesses has more control over the micro environment/less control over market environment and no control over macro environment.
- Identify the challenges of the business environments from scenarios/case studies/statements and examine the extent of control a business has over these environments.
- Discuss/Explain/Describe how businesses can control the business environments.
- Recommend/Suggest ways in which businesses can be involved in the macro environment.
- Outline/Name/Discuss/Explain the challenges of the micro environment.
- Identify these challenges from given scenarios/statements. Quote from scenarios/statements to support your answer.
- Differentiate between strikes and go-slows.
- Outline/Name/Discuss/Explain the challenges of the macro environment.
- Identify these challenges from given scenarios/statements. Quote from scenarios/statements to support your answer.
- Recommend ways in which businesses can overcome competition in the market.
- Identify the impact of socio-cultural factors on businesses from scenarios/case studies and make recommendations on how businesses can address this challenge.
- Outline/Name/Discuss/Explain the challenges of the market environment.

Terms and Definitions

TERM	DEFINITION
Control	The power to influence or direct people's behaviour or the course of events.
Organisational structure	Framework for managers which shows the division of responsibilities and roles played by each stakeholder.
Organisational culture	Controls and influences the way in which the business is conducted
Vision	Reflects or predicts what the future will look like.
Mission statement	Shows what one does best every day in the business and how one should go about doing it.
Human resources	The personnel of a business organisation regarded as a significant asset in terms of skills and abilities.
Suppliers	Factories/providers of goods/services that businesses would obtain/buy from in order to operate their businesses.
Competitors	Businesses which sell the same/similar products/services
Deforestation	Removal of trees to clear land to be used for another purpose, e.g. industrialisation
Redressing	To make amends or to set right
Nepotism	The practise of showing favouritism towards one's family or friends in economic or employment terms
Retrenchment	Involuntary ending of a service contract of an employee by the employer due to operational requirements.
Go-slows	When employees work more slowly and with less effort than usual to try to persuade an employer to agree to higher pay
Trade union	An organized association of workers in a trade, group of trades, or profession formed to protect their rights and interest

Strike	A work stoppage as a form of protest or to strengthen one's bargaining position
Industrial action	These are actions that include strikes or go-slows
Open market	A market where there is no control over who may provide goods and services or over the prices that can be charged
Demographics	Statistical data relating to the population and particular groups within it. Often includes age, gender, income groups and occupation.
Psychographics	The classification of people according to their attitudes, aspirations and other psychological criteria.
Globalisation	Greater trade and collaboration between businesses or people in different countries which is enabled by technological advances and communication.
Physical environment	This is an environment that is comprising of the ecological elements such as natural disasters, air pollution, water pollution, deforestation, waste products or natural resources
Institutional environment	These are private-public partnerships which are formed between government and private enterprises

1 COMPONENTS OF THE MICRO, MARKET & MACRO ENVIRONMENTS. (RECAP)

Components of the Micro environment	Components of the Market environment	Components of the Macro environment
• The business mission and objectives, • Its management structure, • Its resources and its culture are primarily controlled by the enterprise's management	• Customers/Buyers; are the final users of the product/services • Suppliers; include factories/providers of goods/services that businesses would obtain/buy from in order to operate their businesses. • Intermediaries/Agents; who help to promote, sell and distribute products to consumers. • Competitors; which sell the same/similar products/services may have a greater impact on the market of the business. • A regulator; is a person/organisation with official power to control an activity and make sure that it is done in a satisfactory way/make rules by which enterprises in the different industries must abide. • Strategic allies; refer to two or more businesses that work together to allow them to obtain the expertise they lack from another business. • Unions; are the employee organisations that aim to improve working conditions of the labour force.	• Physical/Natural environment • Economic environment • Social/Cultural/Demographic environment • Technological environment • Legal/Political • Environmental/Global environment • Institutional environment

1.1 Reasons why businesses have more control over the micro environment/less control over market environment and no control over macro environment

Micro environment

- Business owners and managers have a great deal of control over the internal/micro environment of business, which covers day-to-day decisions.
- They choose the suppliers they purchase from/which employees they hire/the products they sell, and where they sell those products.
- They use their skills and resources to create goods and services that will satisfy existing and prospective customers.

Market environment

- Market environment for a business includes company related influences
- The market environment refers to influences that have an impact on the success in forming and keeping a sustainable business such as competition and suppliers.
- Businesses can influence their competitors by increasing the quality of their products in relation with competitor prices.
- The opposite can also be that suppliers' raw materials can influence the quality of business products.

Macro environment

- The macro environment refers to the major external and uncontrollable factors that influence an organisation's decision making.
- These factors include the economic/demographics/legal/political/social conditions/technological changes and natural forces.
- The above mentioned factors affect business performance and strategies.
- The external environmental conditions that affect a business are generally beyond the control of management and change constantly.

1.2 Ways in which businesses can be involved in the macro environment

- Influencing suppliers by signing long term contracts.
- Creating new uses for a product by finding new customers.
- Influencing regulators through lobbying and bargaining.
- Initiating bargaining sessions between management and unions.
- Influencing its owners using information contained in annual reports.
- Negotiating strategic alliance agreement through contractual processes.
- Knowing government regulations and operating within them.
- Keeping up with new technologies to improve production and marketing.
- Lowering its impact on the environment.
- Entering the global market by using the internet to source suppliers and customers.
- Working within the law to set up contracts.
- Taking advantage of economic changes such as exchange rate, tax breaks.
- The business can stay informed about the challenges and developments in the macro environment and can adapt to challenges quickly.
- Getting involved in research/development so that they can continue to operate.

1.3 Benefits/advantages of involvement in the macro environment

- The business can more accurately predict future events, threats and opportunities that may arise.
- The business can contribute to a healthier, more skilled and productive workforce.
- It can protect natural resources and meet consumer needs in a sustainable way.
- The business can contribute to wealthier consumers.
- Reduced industrial conflict and increase productivity.
- The business can accurately promote a cause that is a concern to the society.
- The business can contribute its expertise and resources that can influence the public opinion. This is called advocacy.

2 CHALLENGES OF THE BUSINESS ENVIRONMENTS

Challenges of the micro environment	Challenges of the market environment	Challenges of the macro environment
• Difficult employees. • Lack of vision and mission • Lack of adequate management skills • Unions • Strikes and go-slows • Skills shortages among employees • High employee turnover • Employee absenteeism	• Competition • Shortage of supply • Changes in consumer behaviour • Demographics and psychographics • Socio-cultural factors	• Change in income levels • Political changes • Contemporary legislation • Labour restrictions • Micro lending • Globalisation/international challenges • Social values and demographics • Socio economic issues • Socio economic challenges.

2.1 Explanation of the challenges of the business environment

2.1.1 Challenges of the micro environment

Difficult employees

- Difficult employees may have a negative attitude on new employees.
- They need a lot of supervision to complete their tasks satisfactory.
- Difficult employees can do harm to the enterprise image if they say negative things about the business.

Lack of vision and mission statement

- Lack of vision and mission statement will hamper meaningful guidance and leadership to employees.
- When there is no mission the business will lack focus/direction and a single long term objective.

Lack of adequate managerial skills

- Lack of adequate managerial skills will result in the business not achieving its objectives.
- Managers may not be able to provide meaningful guidance and leadership to employees.
- Managers have different styles of managing and leading and this can be the source of enormous conflict with other managers and with staff.
- Ineffective management can affect the productivity and profitability of a business.

The impact of unions

- Trade unions may create tension between management and employees.
- Businesses may not be able to meet the demands of the trade unions.
- Once employees have a grievance against their employers relating to payments/workers' rights/work conditions they will declare an industrial dispute.

Strikes and go-slows

- Strikes and go-slows may affect the business negatively as it cannot meet its expected units of production.
- Employees may not report to work due to a complete shutdown strike.
- Employees may report to work but work slowly so that the business cannot meet its targets due to go slows.

Differences between a strike and go slow

STRIKE	GO-SLOW
• Temporary collective refusal of employees to work.	• The employees still carry on with their work, but at a much slower pace than normal.
• A collective, organised cessation of work by employees to force the employers to accept their demands.	• The employees aim to disrupt the workplace production.
• Workers will not be fired if they participate in a protected strike	• Workers participating in a go-slow are often punished, sometimes fired

Skills shortages among employees

- Businesses sometimes find it difficult to find suitable employees with skills and experience.
- Some businesses end up employing workers who are not qualified to do the job.
- Unqualified employees may contribute to bad decision making.

High employee turnover

- Employee turnover means that employees resign frequently.
- High employee turnover affects productivity, continuity and the recruitment process.

Employee absenteeism

- Employees' absenteeism reduces productivity and affects profitability.

2.1.2 Challenges of the market environment

Competition

- Other businesses which sell similar substitute products pose a problem to/threaten the success of a business.
- It is difficult to compete with businesses selling the same products and services in certain countries.
- If a business is not able to match the quality of service/products and the price of its competitors, it will be in real danger.
- The challenges around competitors can be industry rivalry where businesses aim to sell more than competitors/new entrants with better products/cheaper or better substitutes.
- Businesses could find that they are unable to make sufficient profit when the demand is not high enough to support the supply of the same goods/services.
- Essential for a business to have a regular supply of all the materials that are inputs in the production process.
- Dissatisfied customers can damage the reputation and threaten the future of the business.

Shortage of supply

- Businesses that experience shortage of supply may lose customers as they may buy from other businesses.
- Raw materials may be unavailable when drought cause poor harvest.
- Imported goods may not arrive when the country of origin has transport/political problems.

Changes in consumer behaviour

- A business is dependent on its customers to purchase its products.
- Consumers are influenced by many factors and are mostly unpredictable in their buying behaviour.
- Consumers' preferences and tastes can change as fashions change and as technology advances.
- Changes in consumer behaviour, spending habits, tastes and preferences present an on-going challenge to businesses.
- The challenges include keeping up with changes in consumer tastes and demand by doing research, finding ways to influence consumer demand and conducting advertising campaigns/consumer surveys.

Demographics and psychographics

- Consumers' attitudes, interests, opinions and lifestyles determine the characteristics of the consumer.
- It is difficult to determine the demographics/psychographics of the target market because they change frequently.
- The consumer market is diverse in the cultural and social background which has a direct influence on the choices they make.
- The challenges include collecting/interpreting information about the target market and to use the data to develop a marketing strategy.
- The demographics and psychographics can change quickly and businesses need to change just as quickly if they want to retain their customers.

Socio-cultural factors

- Social-cultural factors describe the common behaviour and attitudes of a particular society.
- As society changes so will the cultural values and practices of individuals.
- Businesses must be aware of change and that they can avoid threats and take advantage of the new opportunities that the change may present.
- Businesses should be aware of social trends and influential campaigns that promote buying.
- The challenge is to gather information about changes and to respond to them by adapting practices to maintain and increase its customer base.

2.1.3 Ways in which businesses can overcome competition in the market

- Management must ensure that the business differentiates itself from the competitors by tapping into what the customer wants.
- Offering more personal services by being responsive to the customer's needs/ expectations.
- Offering low-cost extras such as improved credit terms/discounts/loyalty schemes etc.
- Charging the lower prices than that of the other businesses.
- Selling products of a superior quality/new products/services that the customers might be interested in.
- By being the best employer that has well trained/knowledgeable staff members that create a better working atmosphere.
- Stepping up the marketing of the business by using promotional ideas such as posters or campaigns on social media.
- Updating the image of the business such as painting the front of the premises/making the business look modern/inviting.
- Keeping up with developments in the sector of the business sector, following consumer trends/investing in new technology.
- Improving on customer services and keeping them happy.

2.1.4 Challenges of the macro environment

Change in income levels

- Factors such as unemployment/high interest rate can leave consumers with less disposable income.
- Reduced consumer spending will result in lower profits for businesses.

Political changes

- A change in government can result in political instability and scare away potential investors.
- A business that relies on imported/exported goods may be challenged by government's attitude on duties and tariffs to be imposed.

Contemporary Legislation

- The government has established the National Credit Act and Consumer Protection Act to protect businesses and customers.

Labour restrictions

- The government has passed a number of laws which impose restrictions on business' labour practices.
- These restrictions pose a challenge to businesses that have to find the right candidate for the job.
- These restrictions make it a challenge for business to employ suitable people locally and internationally.

Micro lending

- Micro lending is granting of small loans to people who cannot obtain credit from banks.
- Micro-lending puts pressure on businesses since they want to support micro businesses, but they are a big risk as many fail and cannot repay debt.

Globalisation/international challenges

- Globalisation refers to the exchange of products/services/capital and labour across boundaries/countries.
- Local businesses are competing with international businesses for local consumers
- Businesses should be aware of global networks and their effects.
- The overseas migration of skilled labour can result in local skills shortage.
- This means more competition for businesses that are already under pressure to compete locally.
- Some international businesses dump their product lines in South Africa at the price lower than those at which local businesses can afford to sell them.

Social values and demographics

- People's values influence some of their buying behaviour habits as they buy products that they identify with.
- Attitudes towards saving and brand loyalty can impact on consumers' habits.

Socio economic issues

- Businesses are faced with many challenges of poverty, unemployment, inadequate education, skills shortages, crime and HIV and Aids.
- All these make running a successful business very difficult.

2.1.5 Examples of how challenges of business environments can be assessed using scenarios

VASHNIE FASHION DESIGNERS (VFD)

Vashnie Fashion Designers employ fashion designers who are always late for work despite several warnings. The government has increased import tariffs, making it difficult for VFD to continue importing designer clothing from China. VFD purchase their raw materials from Ditebogo Clothing Manufacturers who are usually out of stock.

- You will have to identify the challenges that are faced by the international company and motivate your answer by quoting from the scenario.
- Classify the identified challenges according to their business environment.
- The extent of control international companies have over EACH business environment mentioned is also expected to be known.

Suggested answers

CHALLENGE	BUSINESS ENVIRONMENT	EXTENT OF CONTROL
VFD has employed designers who are continuously late for work despite several warnings.	Micro-environment	Full control
VFD purchases their material from Ditebogo Clothing Manufacturers who is usually out of stock.	Market environment	Less/limited/partial/ can influence
The government has increased import tariffs, making it difficult for VFD to continue importing designs from China.	Macro environment	No control

2.1.6 Examples of contemporary legislation

National Credit Act

- This Act was established to protect both businesses and consumers from negligent lending practices that result in over-indebtedness for consumers.

Consumer Protection Act

- This Act promotes and advances the social and economic welfare of consumers in South Africa.

Employment Equity Act

- This act is there to eliminate unfair discrimination in the business against race, colour, age, gender, religion or disability.
- It ensures that the demographics make-up of the country is reflected at all levels in the business

Broad Based Black Economic Empowerment Act

- This Act ensures that the previously disadvantaged people fully participate in the economy.

Basic Conditions of Employment Act

- It deals with the constitutional rights in the work place by addressing issues such as working hours/leave/employment contracts pay slips and other working conditions in the business.

Labour Relations Act

- It deals with labour justice and to bring healthy industrial relations in the business between the employers and the employees

Skills Development Act

- The main aim of this Act is improve the skills of all people in South Africa and those employed by business.

Compensation for Occupational Injuries and Diseases Act/COIDA

- It provides compensation for disablement or death caused by injuries or diseases contracted by employees in the course of their employment.

CHAPTER TWO

ADAPTING TO CHALLENGES OF THE BUSINESS ENVIRONMENTS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain/Discuss/Recommend ways in which businesses can adapt to challenges of the micro, market and macro environment e.g.:
 - Businesses can deal with difficult employees as a micro-environment challenge by revisiting the recruitment & induction policies.
- Define/Explain/Discuss/Describe the following ways in which businesses can adapt to challenges of the macro environment:
 - Information management
 - Strategic responses
 - Mergers, takeovers, acquisitions and alliances
 - Organisation design and flexibility
 - Direct influence of the environment and social responsibility
- Give practical examples of mergers, takeovers, acquisitions and alliances.
- Identify these examples from given scenarios/statements. Quote from these scenarios/ statements to support your answer.
- Suggest ways in which business can have a direct influence on the environment.
- Recommend projects that can be undertaken by businesses as part of social responsibility and explain the benefits of these projects for businesses.
- Define the term *lobbying*
- Discuss/Explain the reasons why businesses lobby
- Explain/discuss/describe the following types of lobbying e.g.:
 - Hedging against inflation
 - Bargaining sessions between management and unions,
 - Influencing supervisory body/regulators
- Explain the meaning and the importance of networking.
- Give practical examples of networking.
- Discuss/Explain/Describe the advantages of networking.
- Define the meaning of power relationships.
- Discuss/Explain/Describe ways businesses can form power relationships e.g.
 - Strategic alliance agreements
 - Persuasion of large investors,
 - Company representatives' influence
- Identify lobbying, networking and power relationships from given scenarios/case studies/statements.

Terms and Definitions

Term	Definition
Information management	The finding, recording, storing and retrieving of information from various sources so that it can be used effectively by the business.
Strategic response	A reaction to a need by developing a system that will meet in the long term that need that has been identified.
Merger	When two businesses of similar sizes willingly combine to become one.
Takeover	The act of assuming control of something especially when one company buys out another company against its will.
Alliances	An association formed between organisations with similar interests, nature or qualities for mutual benefit.
Hedging	Is when one tries to invest his money in such a way that its value grows faster than inflation.
Networking	Interacting with others to exchange information and develop professional contacts to help in gaining new customers, better suppliers, etc.

1 Introduction

- Businesses operate in dynamic business environments that pose many challenges on their operations.
- The profitability and success of businesses depend on how they respond to challenges posed by the internal and external business environments.
- Businesses operate within the political context of the country, therefore changes in governance of the country can have a negative impact on businesses.
- There is an increasing trend for people to move freely between countries and for businesses to trade across international borders.
- Businesses need strong relationships to succeed in the market place.

2 Ways in which businesses can adapt to challenges of the micro, market and macro environment.

Ways business can adapt to the challenges of the MICRO environment

CHALLENGES	RECOMMENDATION
Difficult employees	• Businesses can deal with difficult employees as by revisiting the recruitment & induction policies. • Businesses need to develop strategies to deal with different types of personalities. • Businesses must offer counselling sessions to employees with personal problems.
Lack of vision and mission	• Management must have a clear vision which is understood and communicated this to all employees. • The vision must and mission statement have to be implemented in a way that shapes the internal environment. • The vision and mission should direct the use of resources and actions of employees. • Businesses' values must be evident in their ethical standards and the way employees are treated. • Management must be able to anticipate changes in the internal environment so that they can plan goals and operations proactively.
Lack of adequate management skills	• A business manager needs to be skilled in technical aspects of their job and in dealing with employees. • Managers need good interpersonal and conflict resolution skills. • Managers must attend management and leadership courses. • Businesses may request mentors and coaches from successful businesses to train their managers.

Unions, strikes and go-slows	• Managers need to deal fairly and transparently with trade unions. • They need to build relationships with union representatives so that through positive negotiations strikes can be avoided. • The business can also make use of the CCMA to help reach an agreement with the trade unions. • Employers need a labour relations strategy where a business engages positively and meaningfully with its employees before tensions rise and strikes are threatened. • Businesses must be able to manage employees in such a way that good working relationships are maintained and disputes are resolved timeously.
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3 Ways business can adapt to the challenges of the MARKET environment

CHALLENGES	RECOMMENDATION
Competition	• Businesses must take into account its entry into and operation within the market. • Conduct research and identify customer needs. • Offer products or services • Offer more personal services. • Ensure that the staff is well trained and knowledgeable.
Shortage of supply	• Select suppliers which are reputable/trustworthy and reliable suppliers. • Maintain a good relationship with suppliers. • Enter into contracts with suppliers to secure raw materials of good quality in sufficient quantities. • Select suppliers which are reputable, trustworthy and reliable. • Take over suppliers to ensure continuity of its supply. This is called backwards integration.
Change in consumer behaviour	• Marketing of the business should conduct an on-going research to investigate the general behavioural patterns. • The marketing manager must monitor and respond to changes in consumer patterns of consumption.
Demographics and psychographics	• Businesses need to ensure that their information is up-to date and accurate. • They need to interpret data accurately so that they can plan an effective marketing strategy and plan. • They need to keep track and study the attitude, taste and desires of the market.
Socio cultural factors	• The entrepreneurs need to remain informed of socio-cultural changes. • They must be able to respond to socio-economic factors by adapting the internal environment of the business. • Businesses must be able to modify the marketing strategy and marketing plan accordingly. • Business must employ people from diverse social and cultural groups so that they can get an inside view on how to meet the needs of the different groups.

4 Ways in which businesses can adapt to challenges of the MACRO environment

The following ways in which business can adapt to challenges of the macro-environment will be discussed in detail below:

- Information management
- Strategic responses
- Mergers, takeovers, acquisitions and alliances
- Organisational design and flexibility
- Direct influence of the environment and social responsibility

4.1 Information management

- Information must be found/recorded/stored/easily retrieved and effectively used.
- Businesses need to implement an effective information management system which is accessible and useful to all staff.
- They should invest large capital into information technology (IT) system to update business operations.
- Modern IT solutions enable businesses to satisfy customer needs faster and better.
- Business may benefit from an increase in market share and profitability.

4.2 Strategic responses

- Management needs to design strategic responses to various challenges by analysing all information, identifying stakeholders' involved.
- Get a clear picture of each stakeholder's viewpoints and requirements
- Businesses need to be aware of new competitors in the market and they must be able to strategically respond to threats.
- They must make strategic plans to remain sustainable in a competitive market.
- Correct strategic responses assist businesses to identify the most important features of their products.

4.3 Mergers, takeovers, acquisitions and alliances

- Business sometimes have to make quick decisions to survive as a result of challenges from the business environments.
- They may implement mergers, takeovers, acquisitions and alliance as solutions to respond to the challenges of the environments.

Mergers

- This occurs when two companies join together and form one new business.
- When two businesses, usually by agreement become one.
- If it is a public company, then the shareholders will swap their shares in one company for the equivalent value of shares in the new merged company.

Takeovers

- The purchasing of a company (target) by another company (bidder) usually against the will of their targets.
- Businesses that take over existing companies by buying out its shares until the business has controlling interests.

Acquisitions

- A business buys another business at an agreed price.
- It usually occurs to private companies that are not listed.

Alliances

- These are agreements when two or more businesses work together to achieve their objectives.
- Organisations with similar interest/nature/qualities choose to work together for the mutual benefit of both organisations.
- They remain separate and merely co-operate with one another.

NOTE: You must be able to give practical examples of mergers, takeovers, acquisitions and alliances.

4.4 Organisational design and flexibility

- Organisational design describes how a business is structured and how it communicates its culture.
- It is a process to integrate people/information/technology of an organisation so that it improves the profitability of the business.
- Businesses need to be flexible in their organisational design and strategies so that they can compete in a changing market.
- They need to change the organisational design to adapt to a specific challenge.

4.5 Direct influence on the environment and social responsibility

- Direct influences on businesses usually results from legislation/trade agreements and competitor strategies.
- Successful businesses and their environment adapt to the unavoidable influences by creating a competitive environment.

4.5.1 Ways in which businesses can have a direct influence on the environment

- Businesses need to be flexible by getting involved in research/development so that they can continue to operate.
- Influence its suppliers by signing long term contracts.
- Create new uses for a product by finding new customers.
- Influence regulators through lobbying and bargaining.
- Initiate bargaining sessions between management and unions.
- Influence its owners using information contained in annual reports.
- Negotiate strategic alliance agreement through contractual processes.

4.5.2 Social responsibility

- Increasing pressure in the business environment is forcing businesses to become more socially responsible by giving back to communities.
- A business code of conduct should take into consideration the norms and values of the community in which it operates.
- When a business makes a commitment to environmental and social responsibilities it will deliver a tripple bottom line which includes planet, people and profit.

Projects that can be undertaken by businesses as part of social responsibility

- Businesses must allow employees to get involved in social development.
- Managers must protect the environment and participate in community upliftment programs.
- Environmental friendly campaigns
- Making donations to charity organisations
- Engaging in economic development
- Charity community projects
- Benefits for the business Increased sales due to customer loyalty.
- HIV and Aids awareness programs

Benefits of CSI projects for businesses

- Increases employees' morale and job satisfaction when they are involved in social responsibility programmes.
- CSI projects may be used as a marketing strategy to promote their products.
- CSI projects promote teamwork within businesses.
- CSI helps to attract investors because of increased profits/income
- Promotes customer loyalty resulting in more sales.
- May attract experienced employees/increase the pool of skilled labour which could increase productivity.
- Positive/Improved image as the business looks after employees/conducts itself in a responsible way.
- A business may have a competitive advantage, resulting in good publicity/an improved reputation.
- The business enjoys the goodwill/support of communities.

5 Lobbying, networking and power relations

5.1.1 Meaning of lobbying

- Lobbying refers to the process of trying to influence legislation or parliamentary decision making.
- It involves acquiring public support for an issue such as children or animal rights.
- It is an organised process where individuals, business and organisations use their influence to change government policy.
- Lobbying specifically applies to law-makers and government officials and it is a participatory approach to government.
- It is done by various people with similar motives, beliefs or commercial positions.

5.1.2 Reasons why businesses lobby

- Businesses lobby their regulator or supervisory body in order to try influence prices, policies, regulations and other decisions made by the regulator or the supervisory body
- Businesses or people lobby or change laws like, child labour laws, clean air and water laws, municipal regulations, etc.
- Their views are important and heard, thus making a difference and giving solutions to business challenges.
- Lobbying advances business men's cause and builds public trust.

5.1.3 Types of lobbying

Hedging against inflation

- Businesses use hedging to protect their financial investments by spreading the risk.
- Businesses invest surplus fund so that its value grows at a faster rate than inflation.
- They can hedge against inflation by investing their surplus assets/money in investments with intrinsic value e.g. gold/oil/property etc.
- The business use hedging by buying bonds, shares, property or precious metals like gold to protect capital from the effects of inflation.
- It is a method that businesses try to reduce the risk when unsure about possible price fluctuations.

Bargaining sessions between management and unions

- These sessions enable employees to negotiate with employers as a group to protect employees' rights.
- Bargaining sessions prevent labour strikes and provide critical information to people in power
- Businesses make sure that their representatives are trained/skilled to negotiate on their behalf.
- The purpose of bargaining sessions is to find a win-win situation for all parties.

- Management will try to convince the union to accept its proposal and the union will try to persuade management to accept their demands.
- The outcome of a successful bargaining session can protect the business from the negative impact of strikes caused by low productivity.
- Businesses need to be fair/transparent to establish trust and good communication with unions.

Influencing supervisory body/regulators

- There are large number of supervisory bodies and regulators who operate in the business environment.
- Businesses take an active role in professional bodies.
- Through their membership/advocacy/submissions they may be able to influence changes to existing regulations.
- Business managers are involved in debates and discussions that shape public policies.
- Businesses influence and negotiate with these regulators to protect their own sustainability.
- It is in the best of interest of businesses to adhere to the guidelines and restrictions of these bodies in order to stay in businesses

5.2 Networking

5.2.1 Meaning of networking

- It refers to a coordinated activity where people who have a similar objective meet and exchange information and ideas.
- The goal of networking is to reach as many people as possible and to make every connection count.
- It is a tool that is used by businesses to increase sales.
- Businesses can become a member of chambers of commerce and industry/professional business clubs/informal social groupings to meet new-contacts.

5.2.2 Examples of networking

- Formal networking: Organised local, provincial and national chambers of business, industry and commerce.
- Informal networking: Social and less organised coordination.
- For instance business managers often network while playing golf, attending sports events or getting involved in social programmes.
- Social media and the internet: New and cheap ways of businesses to network via online forums and business groups.

5.2.3 Importance/Advantages/Benefits of networking

- Businesses can attract new customers resulting in increased market share and profitability.
- Networking can be an excellent source of new perspectives and business ideas.
- Allows managers to build new businesses relationships and generate new business opportunities.
- Plays a role in the marketing and expansion of a business.
- Assists businesses in making future business decisions.
- Businesses can gain support when representation to various authorities is planned.

5.3 Power relations

5.3.1 Meaning of power relations

- Power relations can be described as a measurement of a business's ability to control its environment and the behaviour of other businesses.
- A business forms relationships with its environment and markets.
- The power that the business has on the environment determines the status it holds within its industry.

5.3.2 Ways businesses can form power relations

Strategic alliance/Partnership agreements

- Businesses form partnership agreements in order to benefit in each other's involvement.
- These partnership alliances help parties involved to benefit in infrastructure development and scarce skills.
- These alliances are designed to build on the expertise of each partner and on the way and on the way in which they complement each other.

Persuasion of large investors

- If a business has a powerful investor, the business can often benefit from the relationship so that it can gain credit more easily and better deals from suppliers.
- Businesses invite powerful influential people to sit on their Board of Directors in order to get advice from those people.
- Having such power as part of the business may have a positive influence on the reputation and image of the business.
- If a business has a large/powerful investor, the business can gain credit more easily/get better deals from suppliers.

Company representatives' influence

- This representative fulfils an important function in trying to persuade investors to invest in a particular business practice.
- People will make decisions based on the company's image, personality, communication style and power of persuasion.
- Businesses must invest time and energy to recruit the right person for this job.

CHAPTER 3

CONTEMPORARY SOCIO- ECONOMIC ISSUES

Learners must be able to:

- List/Name/Give examples of contemporary socio-economic issues that pose a challenge to businesses.
- Identify socio-economic issues from scenarios/case studies/statements.
- Discuss the impact of contemporary socio-economic issues on business operations.
- Discuss/Explain/Describe types of ethical misconduct e.g. sexual harassment, corruption, mismanagement of funds etc.
- Discuss the impact of piracy on business operations.
- Define the following concepts and suggest ways in which businesses can deal with piracy e.g.
 - Copyright
 - Patent
 - Trademark
- Identify copyright/patent and trademark from scenarios/case studies/statements/pictures.
- Define/Explain the meaning of industrial relations.
- Define the following concepts:
 - Strikes
 - Go slows
 - Lockouts
- Discuss/Explain/Describe the purpose of the Labour Relations Act.
- Define the term trade unions and the reasons for the establishment of trade unions. (Do not focus on the history of trade unions).
- Outline/Mention/Discuss/Explain/Describe the roles of trade unions, e.g. addressing poverty reduction, job creation challenges etc.
- Outline/Discuss/Explain the functions of trade unions.
- Evaluate the functions of trade unions from scenarios/case studies and make recommendations for improvement.

Terms and Definitions

TERM	DEFINITION
Economic crime	Known as white collar crime and committed in business for personal financial gain, e.g. fraudulent transactions.
Inefficient use of natural resources	Wasting of scarce resource through negligence or incorrect production methods.
Population growth	Percentage change in the population resulting from births, deaths and migration
Strikes	Refusal to work by two or more employees in an effort to pressurize employers to give in to their demands.
Corruption	This involves dishonest activities in which a person entrusted with authority in a business abuses his/her position of trust in order to achieve some personal gain
Dumping	It is when other countries dump their excess products on the SA market to dominate the local market. Dumped products are usually very cheap
Sexual harassment	Involves unwelcome or unwanted attention of a sexual nature from someone at work that causes discomfort, humiliation, offence etc. that interferes with the job.
Piracy	Unauthorized use/reproduction or copying of original music, films, books or computer software, patent rights and trademarks without the consent of the rightful owner.
Ethical conduct	Acting in ways that are consistent with a person's values of the organisation and society.
Patent	Exclusive right granted for a new invention
Copyright	Exclusive right given to the creator of an original work
Trade mark	A symbol, word, or combination of words legally registered by use as representing a company or a product.
Workplace forums	Representative of employees in a business of 50 employees upwards who are delegated to act on behalf of employees within the business.
Inflation	General increase in the prices of goods and services in the country
Retrenchment	Involuntary ending of a service contract of an employee by the employer due to operational requirements.
Trade union	An organized association of workers in a trade, group of trades, or profession formed to protect their rights and interest
Lock-out	When the employer keep their employees from their places of work until certain terms of a negotiation are agreed upon.
Industrial action	These are actions that include strikes or go slows

1 CONTEMPORARY SOCIO-ECONOMIC ISSUES

Meaning and impact of contemporary socio-economic issues on businesses

1.1. Low income levels

Meaning of low Income levels

- South Africa has one of the greatest inequalities in income in the world.
- This is due to the large differences in salaries between high earners and low earners.

Impact of low income levels on businesses

- Leads to a decrease in the demand for goods and services resulting to a fall in turnover and lower profits for businesses.
- People who earn low salaries and wages may become disheartened and this will influence productivity in a negative way.
- Consumers shift to cheaper brands of certain products.
- Poverty can lead to crimes such as shoplifting and robberies
- Businesses will have fewer profits and will not have money to expand.
- Income level affects the morale of the workforce and could lead to lower productivity which impacts on the business turnover.

1.2 Inflation

Meaning of Inflation

- Inflation refers to the general increase in the prices of all products in the country.
- It leads to a decrease in the purchasing power of money.

Impact of inflation on businesses

- Inflation increases the costs of raw materials and other inputs.
- This leads to optimum productivity whereby businesses has to produce the maximum possible output using the least possible input.
- It decreases consumer spending resulting in decreased sales and profitability.
- Employees may be retrenched which increases unemployment and decreases buying power even further.

1.3 Social, cultural and demographic issues

Meaning of social, cultural and demographic issues

- Social and cultural factors have an impact on the market environment because they shape the way people live/work/produce/consume etc.
- Demographic factors are defined as the characteristics of the population of a country e.g. age distribution, the gender ratio and the racial composition of the country.

Impact of social, cultural and demographic issues on businesses

- Different groups of people with different cultures will behave differently as consumers, which will affect the business' marketing strategy and sales.
- New fashion and cultural trends create different kinds of consumers which may result in the reduction of sales for existing products.
- Some businesses may not keep abreast with current trends and they may lose their market share.

1.4 Economic crime

Meaning of economic crime

- Economic crime is also known as white collar crime, it includes the following criminal activities:
 - Fraud which refers to the unauthorised use of funds.
 - Money laundering which refers to hiding the source of money that was obtained illegally.
- A key feature of economic crime is that money is stolen from a business through the use of intellectual skills and deception.

Impact of economic crime on businesses

- Loss of income if the money was stolen from a business
- Loss of jobs if a business closes down.
- Businesses lose investors.
- Leads to a decrease in investors' confidence resulting in poor economic and business growth.

1.5 Ethical misconduct

Meaning of ethical misconduct

- These are socio-economic issues that occur inside the business that also present threats and challenges to businesses.
- Ethical can be defined as acting in ways that are consistent with a person's value.
- Ethical misconduct can be defined as any behaviour by employees of the business that is not consistent with the values of the business.

Types of ethical misconduct

Sexual harassment

- Sexual harassment in the workplace involves unwelcome or unwanted conduct of a sexual nature from someone at work that causes discomfort

Corruption

- Refers to any act of dishonesty such as bribery/theft/collusion/kickbacks etc.
- It occurs when two parties enter into an illegal but mutually beneficial agreement.

Mismanagement of funds

- Mismanagement of funds refers to the wrongful use of funds that do not belong to a person/employee e.g. irregular expenses.
- This involves dishonest activities in which a person entrusted with authority in a business abuses his/her position of trust in order to achieve some personal gain.

Impact of ethical misconduct on businesses

- Employees who have been victims of sexual harassment may experience a lack of concentration/anxiousness/productivity.
- Corruption and mismanagement of funds will lead to a loss of income.
- Corruption undermines businesses and negatively influences investment.
- Mismanagement of funds can cost a business to lose a large amount of money through direct fraud and theft.
- Business owners involved will face criminal charges.
- There is a high staff turnover due to people leaving because they were sexually harassed.
- It may result to bad publicity and loss of customers/potential investors.

1.6 Population growth

Meaning of population growth

- The word population refers to the number of people in a country.
- A population experiences growth when the number of people are born in a particular year exceeds the number of people who dies during the same year.
- It is a percentage change in the population resulting from births, deaths and migration.

Impact of population growth on businesses

- Excessive growth increases unemployment and crime.
- The municipal and health services may be expensive resulting in the consumer having less money to spend on other products.
- More land will be used to build houses which mean a decrease in agricultural land and a decrease in basic food supply.
- Consumers will have less income and business will have a decrease in sales

1.7 Illiteracy

Meaning of illiteracy

- Illiteracy refers to a person who cannot read or write.
- Many illiterate people cannot find work as most jobs require some reading and writing skills.

Impact of illiteracy on businesses

- Business sometimes needs to employ people even though they do not have the correct skills.
- Training of these employees can be very costly and the business suffers a financial loss.
- Employees without the correct skills can also be the cause of accidents in the workplace and this could impact on the image of the business.
- Difficult to market products to people who cannot read or write.

1.8 Lack of skills

Meaning of lack of skills

- South Africa is currently experiencing severe skills shortages in some fields such as education, medicine, engineering and the finance industry.

Impact of lack of skills on businesses

- Businesses cannot find candidates with adequate skills and experience.
- Businesses end up appointing a candidate who lacks certain skills resulting in poor products and services.
- Training employees is expensive and productivity will be affected as it takes time for newly trained employees to learn his/her new jobs.
- The cost of labour becomes expensive as some businesses recruit candidates from abroad.

1.9 Unavailability of natural resources

Meaning of unavailability of resources

- Some natural resources such as oil/coal/ water/gold are scarce.
- The above mentioned natural resources may be used up if they are not monitored.

Impact of unavailability of resources on businesses

- The unavailability of coal has led in part to a shortage of electricity in South Africa.
- Many businesses lose millions of Rands because of load shedding and power failure.
- The lack of transport due to the scarcity of oil which is used to manufacture fuel may affect businesses.
- When the supply of natural resources is threatened it may have negative impact on the operation of businesses and hamper the production processes.

1.10 Inefficiency in the use of resources

Meaning of inefficient use of resources

- Inefficient use of resources implies that resources are being wasted.
- The wasting leads to further depletion of the natural environment and threatens the future supply of natural resources.
- More resources are used as the population grows.

Impact of inefficiency in the use of resources on businesses

- Businesses cannot continue with their operations if natural resources are depleted.
- Loss of productivity if business operations come to a halt due to unavailability of natural resources.

1.11 Exhaustion of natural resources

Meaning of exhaustion of natural resources

- This refers to the over-use of natural resources leading to exhaustion.
- Resource depletion occurs mostly in relation to farming, mining and fossil fuel.

Impact of inefficient exhaustion of natural resources on businesses

- The supply and quality of natural resources may decline.
- Some natural resources may be scarce and possibly be exhausted in future.

1.12 Dumping

Meaning of dumping

- It is when goods enter South Africa from other countries at a price that is cheaper than the normal value of the goods because more was produced than what that country can use.
- When companies in a developed world send goods that they have been unable to sell in their own countries, to countries in a developing world where they are sold below the normal asking price.
- Dumped products are usually cheaper than South African products.

Impact of dumping on businesses

- Loss of profits as some local producers cannot compete with cheaper prices.
- Businesses may lose revenue and be forced to shut down their operations.
- Can lead to a decrease in local production and loss of jobs.
- Local businesses are unable to produce the same products at an equal or lower price.

1.13 Strikes

Meaning of strikes

- A strike can be defined as a collective, organised stopping of work by employees to force their employers to accept their demands.
- Strikes is usually the results of a labour dispute and it takes place when employees refuse to work.
- The most reasons why employees usually strike include wages, working hours and working conditions.

Impact of strikes on businesses

- Strikes scares off potential investors.
- Businesses may be forced to close down especially those located in townships.
- May results in losses of production as employees stay absent from work during strikes.
- Many businesses suffer losses as a result of damage to property.
- They can lead to violence/assaults/looting/destruction of property and intimidation of workers who do not strike.
- Employees can lose their pays for all the days that they strike.
- Economy can be jeopardised since production is lost.
- Expense of increased salaries and wages is often passed on to the consumer, which causes inflation.
- Businesses loose income because productivity is low.

1.14 Piracy

Meaning of piracy

- Piracy is the unauthorised use/reproduction of another person's original work.
- Products that are associated with piracy are computer software/DVD/CDs etc.
- Many people download music from the internet without being aware that they are infringing someone else's intellectual property right.

Impact of piracy on businesses

- It can undermines the music/movie industry as they lose money.
- Drives up the prices of products in order to compensate for the loss in sales.
- Leads to job losses in the industry
- The music industry feel reluctant to develop new talents as the element of risk is too high.
- May cause damage to the value of the businesses.
- The businesses loses out on sales and income which in turn threatens industry
- The businesses loses out on productivity and profits.

2 Possible solutions to piracy/ Ways in which businesses can deal with piracy

Patent

- A patent prevents other businesses/people not to produce and sell the same product/ specific service.
- Businesses can take out a patent for new inventions and include a sample of their invention with application.
- They must register a patent with the patents office in South Africa.
- The invention must comply with Patent Act No. 57 of 1978.
- They can bring legal proceedings against anyone who uses the invention.

Trademarks

- Businesses can have trademarks to identify themselves and their products.
- They must register their trademarks with the Register of Trademarks at the Companies and Intellectual Property registration.
- A registered trademark is protected forever provided it is renewed every ten years and a renewal fee is paid.
- Claim damages from someone who infringes the trade mark.

Copyright

- Businesses can sue someone who infringes the copyright.
- They can also sue someone who sells or distributes works that he/she knew were infringements of copyright.
- They can take legal action against people who copy their products.

NOTE: You must be able to identify copyright/patent and trade mark from scenarios/case studies/statements/pictures

3 Meaning of industrial relations

- Industrial relations refers to the relationship between the employer and employees.
- It influences the way in which businesses are guided by the Labour Relations Act.

3.1 Types of industrial actions

Strikes

- A strike is when employees stop working completely.
- Employees do not get paid for the days spent on strikes.
- Strikes represent the final stage of dispute/disagreement between management and employees.
- The purpose of a strike is to force employers to agree to the demands of the strikers.

Go-slows

- Go slow is a collective industrial action taken by workers in protest against an employer.
- Workers work slowly as possible or reduce production output.
- Employees still have to be paid as they are doing their work whereas they do not get paid when they go on strike.

Lockouts

- A lockout occurs when an employer locks out employees of a workplace.
- Employers often lock employees out during a strike to ensure the safety of their premises, equipment and working conditions.
- A lock out is legal if it complies with the requirements of the Labour Relations Act.

4 Purpose of the Labour Relations Act

- Provides a framework where the employees, trade unions and employers work together to discuss matters relating to employment, e.g. wages, conditions of employment.
- Promotes orderly negotiations and employee participation in decision making in the workplace.
- Promotes resolution of labour disputes.
- Promotes fair employment practices.
- Outlines the relationship between employees and employers.
- Provides simple procedures for the registration of trade unions and employers' organizations.
- Regulates the rights of trade unions and facilitates collective bargaining.
- Regulates the effectiveness of bargaining councils and statutory councils.
- Establishes workplace forums to promote the interest of all employees in the workplace whether they belong to the trade union or not.
- Allows workplace forums where employees may participate in decision making.
- Establishes the Commission for Conciliation, Mediation and Arbitration (CCMA) to resolve labour disputes through statutory conciliation, mediation and arbitration.
- Endorses the right to strike against retrenchments, and facilitates labour disputes.
- Clarifies the transfer of contracts of employment procedures.
- Establishes Labour Courts and Labour Appeal Courts to deal with labour issues.

5 Trade unions

5.1 Meaning of trade unions

- A trade union is an organisation that protects and lobbies for the rights of workers and represent their interest in negotiations with employers.
- It is a group of employees who associate together in a particular industry such as mining/steelworks/etc. with the purpose of protecting the rights of their members.

5.2 Reasons for the establishment of trade unions

- Engaging in industrial action such as protests and strikes.
- Taking political action to influence the government strategy.
- Establishing minimum economic and legal conditions.
- Providing protection for their members.
- Engaging in collective bargaining for better terms and conditions.
- Assisting workers who have grievances such as disciplinary action/victimization.
- Negotiating with employers for decent working conditions/remuneration/ benefits in order to improve the standard of living.
- Negotiating recognition of the union and shop stewards by the employer.
- Protecting workers against unfair labour practices and dismissal.
- Take legal action on behalf of members when necessary.
- Educating shop stewards and other members' on how to carry out their tasks in the union.

5.3 Roles of trade unions

- Serves as mechanism through which employees have a collective voice in the workplace.
- Unions communicate to the company's management the members' grievances such as unfair dismissal, low wages and conditions of services.
- They ensure that the employers include employees in the decision making process.
- They ensure that employees are treated fairly and respected.
- Unions are involved with social dialogue regarding poverty alleviation, job creation and wealth distribution.

5.4 Functions of trade unions

- Improves conditions of employment.
- Ensures that all employees are treated equally in the workplace
- Representing the interest of general society and minority groups through media and negotiations.
- Influencing government decisions.
- Representing employees corporately and individually.
- Improving material benefits of their members.
- Establishing minimum economic and legal conditions/influencing economic policy and law.
- Playing a role as moral institutions that will uplift the weak and oppressed and give them the dignity and justice they deserve.
- Protecting workers from unfair labour practices and unfair dismissal.
- Take legal action on behalf of members when necessary.

CHAPTER FOUR

BUSINESS SECTORS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain the meaning of the primary, secondary and tertiary sectors.
- Visit any local business enterprise and establish the link/relationship between these sectors
- Discuss/Explain/Describe the link/relationship between the primary, secondary and tertiary sector.

Terms and Definitions

TERM	DEFINITION
Forestry	The industry that serves the processing of wood and related processes including preservation of indigenous forests.
Mining	Extraction of valuable minerals from the earth.
Forward link	Enterprises from a sector sells goods to other enterprises in the same sector or another sectors.
Backward link	Enterprises from a sector buys goods from other enterprises in the same sector or another sectors.
Manufacturing	Transformation of raw materials into something useful.
Insurance	Two parties sharing a risk in the event of a financial loss being incurred and where some form of compensation is paid to the suffering party.
Interdependent	Two businesses, sectors or industries that rely on each other to achieve their best outputs.
Interrelated	Two businesses, sectors or industries are connected.

1 Meaning of business Sectors

- Business sectors are sub divisions/subsets of economic activities, e.g. primary, secondary and tertiary.

1.1 Meaning of the primary sector

- The primary sector is responsible for the extraction of raw material from the nature.
- This sector deals with extraction of raw materials and natural resources
- Natural resources which are not man made like coal, gold, fish and livestock are extracted from this sector
- The resources that they extract are forwarded to the secondary sector of the economy for the production of goods.
- Examples of the primary sector industries; mining, fishing, agriculture, forestry and farming

1.2 Meaning of the secondary sector

- This business sector is responsible for changing the raw materials acquired from the primary sector into useful products.
- It includes the manufacturing factories, construction and energy generation.
- The secondary sector will involve the actual manufacturing of the furniture.
- This business would buy the raw material (The timber) from the suppliers and turn them into finished products.
- Examples of the secondary sector industries; manufacturing, clothing, food processing, building and construction are found in this sector.

1.3.1 Meaning of tertiary sector

- This sector renders services to the public and businesses.
- Provides services and bring finished products to the final consumer.
- It includes services from transport, banking, legal and health.
- Examples of the tertiary sector industries; distribution, banking, insurance, tourism, transportation, entertainment, retail and legal services.

2 The relationship between the primary, secondary and tertiary sector

- The primary sector depends on the secondary sector for manufactured goods such as machinery/equipment/fertilisers e.g. a farmer may require seeds from another farm
- The primary sector is dependent on the tertiary sector for its customer needs.
- The secondary sector processes the raw materials obtained from the primary sector into more useful products.
- The secondary sector depends on the primary sector for raw materials and products.
- The secondary sector depends on other secondary industries e.g. BMW needs tyre from DUNLOP another secondary sector player
- Secondary sector needs the tertiary sector to sell their processed or manufactured goods and also for services such as banks, insurance, transport and communication
- The tertiary sector depends on the primary sector for raw materials that do not need processing by the secondary sector.
- The tertiary sector depends on the secondary sector for manufactured goods such as office machines/office furniture/stationery etc.

3 Examples of statements on business sectors.

Primary sector

Duka Mines specialises in the extraction of platinum

Secondary sector

Super Energy Enterprise produces maize meal and instant soft porridge

Tertiary sector

Timothy Distributors has employed four drivers to deliver goods to various customers.

4 Example of a scenario on the relationship between the business sectors

TENDANI FURNITURES (TF)

Tendani Furnitures sells exclusive lounge suits and tables to consumers. Tendani buys his furniture from Andries Manufacturers who buys his raw material from Kobus Timbers.

Example of questions that may be asked on the scenario above.

- Identify THREE business sectors from the scenario above. Motivate your answer by quoting from the scenario.

Use the table below as a guide to answer this question.

BUSINESS SECTOR	MOTIVATION
1.	
2.	
3.	

- Explain the relationship between the business sectors identified from the scenario above.

CHAPTER FIVE

BENEFITS OF THE COMPANY OVER OTHER FORMS OF OWNERSHIP

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Discuss/Explain/Describe the characteristics, advantages and disadvantages of the forms of ownership. (Recap)
- Distinguish/Differentiate/Tabulate the differences between forms of ownership.
- Discuss/Explain the benefits of establishing a company versus other forms of ownership e.g.:
 - Legal status and liability.
 - Profit sharing
 - Ownership and management
 - Capital and cash flow
 - Life span and continuity
 - Taxation
- Discuss/Explain the challenges of establishing a company versus other forms according to the above mentioned benefits.
- Explain/Describe/Discuss the procedure for the formation of companies.
- Discuss/Explain the legal requirements of the name of the company, e.g.:
 - A company is not allowed to use a misleading name,
 - A name reservation is valid for six months, etc.
- Define the following concepts:
 - Memorandum of Incorporation
 - Notice of Incorporation
 - Prospectus, i.e. initial & secondary offer
- Outline the aspects that must be included in the prospectus.

TERMS AND DEFINITIONS

TERM	DEFINITION
Form of ownership	The legal position of the business and the way it is owned.
Continuity	Continue to exist even if a change of ownership takes place, e.g. a member or shareholder dies or retires.
Securities	Shares and bonds issued by a company.
Limited liability	Losses are limited to the amount that the owner invested in the business.
Unlimited liability	The owner's personal assets may be seized to pay for the debts of the business.
Memorandum of Incorporation (MOI)	The document that sets out the rights, responsibilities and duties of shareholders and directors (serves as a constitution of a company).
Sole Trader /Sole proprietor	A business is owned and controlled by one person who takes all the decisions, responsibility and profits from the business they run.
Partnership	An agreement between two or more parties that have agreed to finance and work together in the pursuit of common business goals.
Co-operative society	Autonomous association of persons united voluntarily to meet their common economic/ social needs/aspirations through a jointly owned and democratically controlled enterprise.
Company	A company is a legal person who has capacity and powers to act on its own.
Public company	A public company is a voluntary association of ONE or more persons, governed by the company Act 71 of 2008, incorporated in terms of the Memorandum of Incorporation.
Private company	A private company is a voluntary association of 1 or more persons.
Personal liability company	A personal liability company is a voluntary association of 1 or more person.
State-Owned company	A state-owned company (SOC) is a legal entity that is created by the government in order to participate in commercial activities on its behalf.
Partnership Article	A document that contains exhaustive provisions with regards to the matters concerning the business and the partners.
Prospectus	Prospectus is a document inviting the public to buy securities/shares.
Annual General Meeting (AGM)	A meeting held once a year where the shareholders receive a report stating how well the company has done.
Directors	People elected to the board of a company by the shareholders to represent the shareholders' interests.

1 CHARACTERISTICS, ADVANTAGES AND DISADVANTAGES OF THE FORMS OF OWNERSHIP (RECAP)

1 SOLE TRADE /SOLE PROPRIETOR

1.1 Definition

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

Characteristics of a sole trader

- One person can form a sole trader and is easy to start.
- It is inexpensive to start and the owner does not have to pay tax.
- There are no legal and administrative formalities in the formation of a sole trader.
- The profit of the business belongs to the owner as there is no distinction between the owner and the business.
- A sole proprietor is not a legal entity and agreements are entered into by the owner in his/her personal capacity.
- Business has unlimited liability and the private possessions of the owner can be used to pay the debts of the business

1.2 Advantages and disadvantages of a sole trader

ADVANTAGES	DISADVANTAGES
-Owner makes all decisions.	-Unlimited liability which means the owner is responsible for all debts incurred by the business
-Requires little capital to start.	-Cash flow is often a problem.
-All profits belong to the owner	-Growth of business can be restricted due to lack of capital.
-Simple management structure.	-Not a legal entity and no continuity
-Can easily adapt to the needs of the client/customer.	-Difficult to attract highly skilled and knowledgeable employees.
-No legal process and requirements.	-The owner is responsible for providing all the capital needed.
-The assets of the business belong to the owner.	-If the owner does not have enough knowledge/experience the business may fail.
-There is personal encouragement and personal contact between the owner and customers.	

2 PARTNERSHIP

2.1 Definition

- A partnership has two or more partners who own the business.
- These owners share the responsibility of the business and they share the financial and management decisions of the business.

2.2 Characteristics of a partnership

- An agreement between two or more people who combine labour, capital and resources towards a common goal.
- Partners combine capital and may also borrow capital from financial institutions.
- No legal requirements regarding the name of the business.
- Partners have unlimited liability and are jointly and severally liable for the debts of the business.
- Profit is shared according to the partnership agreement.
- Partnership does not pay tax partners pay personal income tax.
- Auditing of financial statements is optional.
- Partners share responsibilities and they are all involved in decision making.
- No legal formalities to start, only a written partnership agreement is required.
- The partnership does not pay income tax, only the partners in their personal capacities.
- Diversity, specialisation and different skills of the partners can be used.
- Partnership has no legal personality and therefore has no continuity.
- Partners share responsibilities and they are all involved in decision making.

2.3 Advantages and disadvantages of partnership

ADVANTAGES	DISADVANTAGES
-The partners able to put their knowledge and skills together to collectively make the best decisions.	-A partnership has unlimited liability so all the partners are liable for the debts if the business becomes insolvent.
-The workload and responsibility is shared between partners.	-Each business partner is legally responsible for the joint liability of the partnership.
-Partners are able to share resources.	-Different personalities and options of partners can lead to conflict it disagreements.
-Partners are only required to pay tax in their personal and individual capacity.	-Partners might not all contribute equally.
-The partners have a personal interest in the business.	-Loss in profits and stability of the business can occur if a partner resigns/ dies/loses interest in the business or is declared bankrupt.
-Can bring in extra partners at any time.	-There can be lack of capital and cash flow.
-Attract prospective employees with the option or incentives of becoming a partner.	
-Partnerships are relatively easy to establish.	
-Partners contribute new skills and ideas into a business	
-Partners share responsibilities for decision making and managing the business	
-Partners share any profits and are therefore motivated to work hard.	
-Raising additional capital to finance further business expansion is easy as there is no limit on the number of partners.	
-Partners are taxed in their own capacities, which could lead to lower taxation.	

3 CLOSE CORPORATION

3.1 Characteristics of a Close Corporation

- Can have a minimum of one and maximum of ten members who share a common goal.
- The word 'close' means that all members are involved and participate in its management.
- Each member makes a contribution of some/assets/services towards the corporation.
- The name must end with the suffix CC.
- Members have unlimited liability except where the CC has had more than ten members for six months or longer.
- A CC has its own legal personality and therefore has unlimited continuity.
- Auditing of books is optional as members only need an accounting officer to check financial records.
- Transfer of a member's interest must be approved by all other members.
- Profits are shared in proportion to the member's interest in the CC.

3.2 Advantages and disadvantages of a Close Corporation

ADVANTAGES	DISADVANTAGES
-There are few legal requirements e.g. auditing of financial statements/regular annual general meetings.	-Limited growth and expansion since a CC cannot have more than ten members.
-A CC is a legal entity and has continuity of existence.	-A member of a CC can be held personally liable for the losses of CC if the member acts are incompetent.
-Can be converted to a private company and members may become shareholders.	-Audited financial statements may be required when applying for a loan.
-Members have limited liability	-A CC is taxed as if it were a company, which may be higher than personal tax rates.
-Owners' interest in the CC does not need to be in proportion to their capital contribution.	-Difficult for members to leave the CC as all members must agree to dispose of a member's interest.
-CC may be exempted by CIPC from auditing its financial statements.	-A CC is taxed on its income and Standard Tax of Company (STC) based on member's dividends/ Double taxation.

4 Private Company

4.1 Definition

It can be a small or large company and has one or more directors.

4.2 Characteristics of a private company

- Requires one or more directors and one or more shareholders.
- It needs a minimum of one shareholder and there is no limit on the number of shareholders that a private company may have.
- Register with the registrar of companies by drawing up Memorandum of Incorporation.
- The company name ends with letters (PTY) Ltd.
- A private company is not allowed to sell shares to the public.
- Investors put capital in to earn profit from shares.
- The company has a legal personality as well as unlimited continuity.
- The auditing of financial statements is optional.
- Profits are shared in the form of dividends in proportion to the share held.
- Shareholders have a limited liability and will not lose their initial capital invested if the business goes bankrupt.
- Shareholders have limited liability and a separate legal entity.
- Raises capital by issuing shares to its shareholders.
- Profits are shared in the form of dividends in proportion to the number of shares held.

4.3 Advantages and disadvantages of a private company

ADVANTAGES	DISADVANTAGES
-More opportunities to pay less taxation	-Requires a lot of capital
-Good long-term growth opportunities	-The more shareholders, the less profits
-Own legal identity and shareholders have no direct legal implications/ limited liability.	-More taxation requirements
-Board of directors with expertise/ experience can be appointed to take decisions	-Directors do not have a personal interest
-Not required to file annual financial statements with the commission.	-Annual financial statements must be reviewed by a qualified person, which is an extra expense to the company.
-It is a legal person and can sign contracts in its own name.	-Difficult and expensive to establish as the company is subjected to many legal requirements
-The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.	-Pays tax on the profits of the business and on declared dividends/Subject to double taxation.
-Financial statements are private and not available to the general public.	-Must prepare annual financial statements.
-A company has continuity of existence	
-It is possible to sell a private company as it is a legal entity in its own right.	
-It can easy raise capital by issuing shares to its members.	

5 PERSONAL LIABILITY COMPANY

5.1 Definition

- Very similar to a private company, the difference is that the directors of a Personal Liability company are jointly and severally liable for all the debts and liabilities of the company. This means that the directors have unlimited liability.
- The name of the personal liability company ends in INC and the name of the private company ends in (PTY) Ltd.

5.2 Characteristics of a personal liability company

- The company name must end with letters INC
- Directors have unlimited liability and they are jointly liable for the debts of the business even if they are long out of office.
- The memorandum of Incorporation should state that it is a personal liability company.
- They must at least have one director on their board of directors.

NOTE: Other characteristics of a personal liability company are the same as the private company except the above mentioned two characteristics.

5.3 Advantages and/or disadvantages

NOTE: The advantages of a personal liability company are the same as the private company. The disadvantages are also the same as the private company except the directors of the personal liability company have unlimited liability

6 PUBLIC COMPANY

6.1 Definition

- A public company is a company that is registered to offer its stock and shares to the general public. This is mostly done through the Johannesburg Securities/Stock Exchange (JSE).
- The public company is designed for a large scale operation that require large capital investments.

6.2 Characteristics of a public company

- A minimum of one person is required to start a public company.
- Requires three or more directors and three or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- The company name ends with letters Ltd.
- Has legal personality and therefore has unlimited continuity
- Raises capital by issuing shares to the public and borrowing capital by issuing a debenture.
- A prospectus is issued to the public to raise capital.
- Shareholders have a limited liability
- The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.
- The company has a legal personality as well as unlimited continuity.
- A public company is required to hold an AGM (Annual General Meeting).
- Auditing of financial statements is compulsory and audited statements are available to shareholders and the public.
- Profits are shared in the form of dividends in proportion to the share held.

6.3 Advantages and/or disadvantages

ADVANTAGES	DISADVANTAGES
-The business has its own legal identity	-Must disclose all financial information
-Easy to raise funds for growth through the sale of shares.	-Large amount of funds are spent on financial audits.
-Shareholder is only liable for the amount which is invested/Shareholders have limited liability.	-Stocks have to be traded publicly.
-Can appoint a knowledgeable board of directors.	-A full report must be submitted to the major shareholders each year.
-Buy and sell shares freely.	-Difficult and expensive to establish as the company is subjected to many legal requirements
-Shareholders can sell/transfer their shares freely.	-The more shareholders, the less profit.
-The public has access to the information and this could motivate them to buy shares from a company.	-Shareholders may be allowed little or no input into the affairs of the company.
-Additional shares can be raised by issuing more shares or debentures	-Due to legislation, decisions take longer and there may be disagreements.
-Strict regulatory requirements protect shareholders.	-Financial affairs must be known to publicly, this information could be used to competitors' advantage.

7 State owned company

7.1 Definition

- A state owned company has the government as its major shareholder and falls under the department of Public Enterprise.
- These businesses take on the role of commercial enterprise on behalf of the government.

7.2 Characteristics of a State Owned Company

- Requires three or more directors and one or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- It is owned by the government and operated for profit.
- SOC is listed as a public company.
- The name ends with letters SOC.
- State owned companies support private businesses by providing infrastructure such as communication service/Post office and supply of electricity/Eskom.

7.3 Advantages and disadvantages

Advantages	Disadvantages
-Profits may be used to finance other state departments	-May result to poor management as government is not always as efficient as the private sector.
-Offer essential services which may not be offered by the private sector	-Inefficiency due to the size of the business
-Prices are kept reasonable/Create sound competition with the private sector to make services affordable to more citizens.	-Often rely on government subsidies
-Wasteful duplication of services is eliminated	-A lack of incentive for employees to perform if there is no absence of other motivator such as productivity bonuses.
-Planning can be coordinated through central control.	-Government can lose money through the business.
-Generates income to finance social programmes.	-A lack of incentive for employees to perform if there is no share in the profit.
-Jobs are created for all skills levels.	-Losses must be met by the tax payer.
	-Shares are not freely tradable making it difficult to raise capital.
	-SOC must follow strict regulations for operations to raise capital.
	-Financial statements must be audited

8 Differences between the private and public company

PRIVATE COMPANY	PUBLIC COMPANY
- May no offer shares to the general public.	- Trades its shares publicly on the Johannesburg Securities Exchange.
- Shares are not freely transferable	- Shares are freely transferable.
- Minimum of one director.	- Minimum of three directors.
- Name must end with Proprietary Limited/ (Pty) Ltd.	- Name must end with Limited/Ltd.
- Annual financial statements need not be audited and published.	- Annual financial statements need to be audited and published.
- Does not need to publish a prospectus as it cannot trade its shares publicly.	- Have to register and publish a prospectus with the Companies and Intellectual Property Commission/CIPC.
- The company is not required to raise the minimum subscription/ issue minimum shares.	- Must raise a minimum subscription prior to commencement of the company.

9 Differences between the private and a personal liability company

PRIVATE COMPANY	STATE OWNED COMPANY
The name ends with (PTY) Ltd	The name ends with INC
The directors are not personally liable for the debts of the business.	The directors are personally liable for the debts of the business.

10 Cooperatives

10.1 Definition

- A cooperative is a traditional way of a group of interested parties getting together and sharing resources/infrastructures and costs to achieve a better outcome.

10.2 Characteristics of cooperatives

- Minimum of five members is required to start a cooperative.
- Register with the Registrar of Companies
- Legal entity and can own land and open bank accounts.
- Members own and run the business together and share equally in its profits.
- Decisions are taken democratically
- They are motivated by service rather than profit
- Must register with the Registrar of Cooperatives Societies
- The word 'Cooperative Limited' must appear at the end of its name.
- They are managed by a minimum of three directors.
- The objective of a co-operative is to create mutual benefit for the members.

10.3 Advantages and/or disadvantages of cooperatives

ADVANTAGES	DISADVANTAGES
-Access to resources and funding	-Decisions are often difficult to reach and time consuming.
-Decision making is by a group	-Difficult to grow a co-operative.
-Each member has an equal share in the business.	-Very few promotion positions for staff.
-A co-operative can appoint its own management.	-It can be difficult to get a loan because their main objective is not always to make a profit.
-Members have limited liability	-The success of cooperatives depends on the support of the members.
-The decisions are democratic and fair	-Shares are not freely transferable
-Members are motivated because they are working for themselves	-All members have one vote regardless of the number of shares held.
-Can gain extra capital by asking its members to buy shares.	
-Co-operatives have continuity of existence	
-Resources of many people are pooled together to achieve common objectives	
Profits are shared equally amongst members.	

11 Benefits of establishing a company versus other forms of ownership

11.1 Legal status and liability

- A company has its own legal status, trading name and owns its assets.
- Shareholders' private assets are protected as they have limited liability.
- The shareholders have no direct legal responsibility.
- Companies have their own names and these are protected.

11.2 Profit sharing

- Shareholders share in the profits of the company through dividends

11.2 Ownership and management

- Shareholders are able to buy and sell shares freely in a public company.
- The company is managed by qualified and competent board of directors
- A company is less likely to use consultants as it has a larger pool of skills and expertise
- Directors are more likely to take risks and allow growth opportunities for the business.

11.3 Capital and cash flow

- A company may have more investors to fund the setting up of the business.
- Companies have a better cash flow than sole traders.
- A company is not limited to the individual contribution of the members' capital.
- The long term growth opportunities for companies are really good as there are always possibilities of getting in more investors.
- Directors do not have to take out personal loans to grow the business

11.4 Life span and continuity

- A company has continuity of existence.
- Company shares can be transferred/bought/sold.

11.5 Taxation

- Companies have tax benefits other enterprises do not have
- They may obtain tax rebates if they are involved in social responsibility projects.

12 Challenges of establishing a company versus other forms of ownership

- Directors may not have a personal interest in the business and this could prevent the business from gaining maximum growth and profits.
- Directors who do not have a personal interest in the business may not attract investors.
- There may be conflict between the owners of the company and management in control.
- The more shares there are the less profit per share.
- A company is required to submit a full report to all stakeholders each financial year.
- The limited liability aspect of the company generates more paper work in the registration process.
- The owners of the company have more liability.
- When directors change there could be a lack of continuity in management.
- Companies have more taxation requirements and other taxes are high.
- They are required to disclose all financial information which could provide their competitors with an unfair advantage.
- Politics can get in the way and managers are appointed for the wrong reasons.
- State owned companies often deliver non-profitable services that lead to government losing money through the business.
- A company can stop existing if deregistered by the Registrar of Companies.
- A large amount of money of funds is spent on financial audits and accounting fees due to government regulations.

13 Procedure for the formation of companies

- Determine the people establishing the company
- Reserve a company name with the Registrar of Companies
- Prepare a memorandum of incorporation
- File a notice of incorporation
- Obtain a unique registration number
- All companies must be registered with the Registrar of Companies.
- Open a bank account and register for taxation.
- Draw up a prospectus for potential investors.

14 Legal requirements of the name of the company

- The name of a company must be original and must not be misleading.
- A company's name must appear on all company documents, e.g. on letterheads.
- Reserving a name for a company is the first step to register a company, but it is not compulsory.
- Names can be reserved for a period of 6 months by the CIPC.
- The name must not be similar/same as any other company unless it is part of the group.
- The name must not imply/suggest/mislead a person to believe that the company is part of another person/business/the state.
- The name must not be offensive/promote violence/hatred and cause any harm.
- The name must not be shortened and translated.
- The name of a company must indicate the type of company as follows: The name of a company must end with...

15 Memorandum of Incorporation/MOI

15.1 Meaning of memorandum of incorporation/MOI

- MOI serves as the constitution of a company.
- Companies are governed according to the rules stated in the MOI.
- Each company must provide a copy of its MOI to the Companies and Intellectual Property Commission (CIPC).
- MOI describes the relationship between the business and its stakeholders.
- MOI describes the rights, responsibilities and duties of the shareholders and directors.
- Provides details about incorporation, the number of directors and the share capital.
- Includes information about a company's name/registration office and records.

15.2 Aspects that must be included in the memorandum of incorporation

- Incorporators
- Nature of the company
- Securities of the company
- Shareholders and meetings
- Directors and officers
- Name of the company
- Main objectives of the company
- Number of shares each incorporator will purchase
- Amount of share capital registered
- Rules and regulations of the company
- Name of the auditor

16 Notice of incorporation

- The notice must be lodged together with the Standard Form of Memorandum of Incorporation and it contains the following information
 - Type of company
 - Financial year-end
 - Number of directors
 - Incorporation date
 - Registered address
 - Company name

17 Prospectus

17.1 Meaning of a prospectus

- A prospectus is a written invitation to the public to buy the securities offered by a public company.
- It is a formal legal document giving details about investment offerings to the public.
- A prospectus can only be issued by a company and it must be within three months after the date of its registration.
- It gives information about the business.

17.2 Meaning of the Initial order offer/IPO

- This is when the company issues shares to the public for the first time.
- The company must produce a prospectus before undertaking the initial offering.
- Most companies undertake an IPO with the assistance of an investment banking firm acting in the capacity of an underwriter.

17.3 Meaning of the secondary offering

- A secondary offering is an offering of securities by a shareholder of the company as opposed to the company itself, which is a primary offering
- A secondary offering is the sale of new or closely held shares by a company that has already made an initial public offering (IPO)

17.4 Aspects that must be included in the prospectus

- Company overview, including the vision, mission and goals of a business
- Product or service portfolio
- Market analysis and strategy
- Management team
- The risk and potential of the business
- Available financial and share information
- Company's assets and liabilities
- Financial position
- Profits and losses
- Cash flow
- Prospects for growth
- Pre-incorporation contracts that have been signed
- Date of registration of the prospectus
- The minimum subscription

CHAPTER SIX

AVENUES OF ACQUIRING A BUSINESS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain/Discuss/Justify/Motivate the reason why entrepreneurs may decide to purchase an existing business.
- Outline/Mention/Discuss/Explain/Describe the advantages, disadvantages and contractual implications of the following business avenues:
 - Franchising
 - Outsourcing
 - Leasing
- Identify/Name business avenues from scenarios/case studies/statements.
- Conduct research on the viability and benefits of franchising, outsourcing and leasing

Terms and Definitions

TERM	DEFINITION
Royalties	Payments made to the franchisor by the franchisee based on the turnover of the business.
Vendor	A person or a business to whom a function is outsourced.
Franchising	When a person or a business gives another business or person the right to sell the same goods or services subject to certain criteria or regulations.
Franchisee	Individual who purchases the right to use the trademark or business model.
Franchisor	Individual who sells the right of the trademark or business model in return for franchise royalty fee.
Leasing	Method where a business can pay for the use of an asset rather than buying it outright for itself.
Lessor	Person or business who owns the assets
Lessee	Person using the assets.
Outsourcing	When a business buys goods or services from another business or pays another business to carry out a function instead of it doing it itself.
Goodwill	The amount of money the business owner wants for the good trade name he or she has built up, the customer base, the branding of the business, etc.
Solvent	The value of the company's assets exceeds that of the liabilities.
Liquid	The company has enough cash to pay daily expenses.
Profitable	Income exceeds expense

1 Reason why entrepreneurs may decide to purchase an existing business

- Easier to raise finance if the business has a good history/image.
- Immediate cash flow as there are already established customers.
- Market research has already been done and there is an established customer base.
- Distribution/Supply links/Staff/Network is/are already established.
- A market for business products or services has already been established.
- Existing employees and managers may have experience they can share.
- Many business problems have already been solved.

2 Types of avenues of acquiring businesses

2.1 Franchising

2.1.1 Meaning franchising

- Franchising refers to the purchase of a business idea.
- The entrepreneur will obtain premises and the right to offer the same products/services, with specific rules and regulations as per the agreement.
- Franchising is the practice of using another person's business model and it can be seen both as marketing and distribution.
- Franchising involves two parties:
 - **Franchisor** - the person who sells the right to trade in the products/services.
 - **Franchisee** - the person who purchase the right to reproduce the idea by offering the same products/services.
- The franchisor grants the franchisee the right to distribute its products and trademarks for a percentage of gross monthly sales and a royalty fee.

Examples of a franchise

- McDonalds
- Kentucky Fried Chicken (KFC)
- Fish & Chips
- Food lovers
- Filling stations

2.1.2 Advantages and disadvantages of franchising

Advantages of franchising

- It allows businesses to buy a well-known brand which guarantees sales and good return.
- Purchasing a franchise is cheaper than starting a new business.
- Franchising reduces long-term financial risk.
- A business is based on a proven idea and the product and service are tried and tested.
- A franchisee can get support from the franchisor, which often includes training, advice, and marketing.
- Forms of financing that are not available to the public are often available to franchisees.
- Purchasing a franchise could be cheaper than starting your own business.
- Businesses are able to use a recognized brand name and registered trademark, which helps with advertising and marketing.
- The systems/operations/goods and services are well established.
- There is often access to group support from other franchisees and a network of communication and legal advice.
- Established suppliers give bulk discounts as they form part of a larger group.
- The marketing and advertising costs are shared so they are often lower than for a non-franchised business.
- Management advice is often provided, so it is not necessary to be a business expert.

Disadvantages of franchising

- Acquiring a franchise can be an expensive initial layout
- There are often restrictions in the agreement and terms of how the business should be operated.
- Many creative entrepreneurs feel limited as to how much they can grow/expand their ideas.
- One poorly performing outlet may risk the reputation of the entire franchise.
- A large portion of profits is paid in royalties, and often the franchisors do not deliver on their promises.
- It is often difficult to sell a franchise/terminate a contract.
- The start-up cost may be a challenge without assistance from the franchisor.

2.1.3 Contractual Implication of franchising

- The franchisor and franchisee must sign a franchise agreement which is legally binding on both parties. The agreement must cover the following aspects:
 - Confidentiality clause.
 - Tax requirements.
 - Disclosure documents
 - Settlement of disputes
 - How to sell or transfer the franchise
 - Total investment
 - How to deal with trademarks, patents and logos.
 - Advertising policies
 - The initial duration of the franchise and any renewal rights.
 - The policies that govern the product or service.
 - Royalties and service fees payable.
 - Termination clause and its consequences
 - Training and operational support provided by the franchiser
 - The obligations of the franchiser and franchisee
 - The nature and extent of the rights granted to the franchisee.
 - The form of ownership that the franchise will operate under

2.2 Outsourcing

2.2.1 Meaning of outsourcing

- Outsourcing is when a business buys goods/services from another business to do the job instead of the business performing the function themselves.
- One of the reasons for outsourcing is that a business may not have sufficient capital to purchase the equipment to perform a specific function.

Examples of outsourcing

- IT outsourcing
- Legal outsourcing
- Security
- Cleaning
- Recruitment
- Transport
- Staff training
- Call centres
- Computer installation and maintenance
- Accounting functions such as managing salaries and wages.
- Catering services

2.2.2 Advantages and disadvantages of outsourcing

Advantages of outsourcing

- Outsourcing allows the business to focus on important business activities rather support activities.
- A business has access to resources and equipment for a specific function.
- The production team is often shortened and quality is often improved because specialists are performing the function for the business.
- A company is able to reduce costs as outsourcing can lead to a decrease in staff, remuneration, control and operating costs.
- The business can focus on its vision /goals and to apply its staff more effectively in its core business.
- Improved access to skilled people as the outsourced work will be done by highly skilled people without the company having to employ them.
- Fixed cost and overhead costs are lower for the business.
- Outsourcing will provide continuity during periods of high staff turnover.

Disadvantages of outsourcing

- Risk of losing sensitive data and the loss of confidentiality
- Risks such as bankruptcy and financial loss cannot be controlled
- Lack of Organizational Learning and innovative capacity.
- Managing the outsource provider could be more difficult than managing employees.
- Confidential issues could be at risk if the information is given to another company who performs the function that is outsourced.
- Outsourcing can create a crisis for the business if the outsource provider suddenly terminates its contract.
- There may be a lack of personal care/quality as the business is not personally involved in the execution of the function
- Hidden costs and legal problems may arise if the outsourcing terms and conditions are not clearly defined.
- Losing management control of business functions mean that the business may no longer be able to control operations
- Not understanding the culture of the outsourcing provider and the location where you outsource to may lead to poor communication/lower productivity.
- Problems with quality can arise if the outsourcing provider doesn't have proper processes
- If important functions are being outsourced, an organization is mightily dependent on the outsourcing provider.
- Outsourcing provider may work with other customers, they might not give full time/attention to a single company resulting in delays and inaccuracies in the work output.
- Labour unions are opposed to outsourcing, especially where labour brokers are used.

2.2.3 Contractual implications of outsourcing

- A contract will protect and regulate the rights and responsibilities of both parties involved. Some aspects that may be included in the contract are:
 - An exact description of the service/product.
 - Duration of the contract
 - A detailed description of the duties and the responsibilities of both parties.
 - Confidentiality
 - Payment terms and conditions.
 - Penalties for not delivering the agreed services

2.3 Leasing

2.3.1 Meaning of leasing

- Leasing is the method whereby a business pays for the use of an asset e.g. equipment, land, material etc.
- The person who owns the asset is known as the lessor
- The lessee is the person who uses the asset.
- The lessor will make the asset available to the lessee, who lease the asset in return for an agreed amount called leasing charges.
- The leasing fee usually includes a maintenance fee and insurance fee.
- The lessor has to repair /replace the asset if needed.
- This is a method gives businesses the option of obtaining the use of an asset for a certain period, instead of buying the asset

Examples of leasing

- Office equipment
- Vehicles
- Trailer
- Machines
- Clothing rental businesses

2.3.2 Advantages of leasing for the lessor

- Leasing improves the cash flow of the business.
- Leasing is regarded as an expense for the lessee and is therefore not regarded as debt.
- The lessor receives a continual rental income.
- The lessor can get quantity discount by buying goods in bulk to supply various lessees.
- The asset can be returned to the lessor when it is no longer needed.
- Makes budgeting and planning easier and it provides better control over cash flow.
- Retains ownership of the asset, which can be sold to recover money at the end of the lease
- There is no large financial outlay as the cost is spread over a number of months/years.
- The lessor normally covers the maintenance/replaces any damaged parts or equipment.
- There are tax advantages as rental payment are calculated as operating costs and therefore tax deductible.
- It is easy to lease a better/newer version of the product without the capital outlay.

Disadvantages of leasing

- The lessee does not own the asset.
- The lessor has control over the financial obligation of the lessee.
- Some leases require the lessee to maintain and repair the asset.
- A large amount of money is spent on an asset every month, the total of which is a lot more than what the asset is worth.
- Maintenance agreements are usually expensive and non-negotiable.
- The agreement cannot be ended without a penalty.
- The lessee is responsible for maintenance even though they do not own the item.
- The total monthly cost can be increased.
- The lessor may not be able to sell the asset after the lease if it has not been kept in good condition.
- The lessor is committed to the contract and may not reclaim the asset before the lease expires.
- The lessee is committed to the contract and may have to pay for the lease even if they have no further use for the item.

2.3.3 Contractual implications of leasing

- The lease agreement will indicate whether the lessee becomes the owner of the asset after the lease period for a fee or not.
- The following details must be stated on the lease agreement:
 - Names of the parties entering the lease agreement/contract.
 - Duration/Period of the lease
 - Detailed description of what is being leased.
 - Conditions of renewal
 - The monthly amount payable
 - Any conditions such as deposits, insurance and security
 - Details of how the instalment will be calculated.
 - Any specific conditions for renewing the lease at the end of the contract period.
 - The procedure and liability for legal costs if a dispute arises.
 - The procedure if the lessor or lessee become insolvent
 - Detail of insurance, maintenance and restrictive use, up-front payment and instalments.

Example of a scenario on acquiring business avenues

WISE LWAZI VENTURING

Lwazi and his sons have realized that it is not always necessary to start a business from scratch. They approached an existing business and concluded a contract to be given a right to sell their similar products within some regulations. The younger son became smarter when he realised that their small items that require regular maintenance can make money for them by contracting it to another business. But his billionaire daughter proved to the world that it is effective when a business decides to focus on its vision and improve their quality by allowing specialists to perform other duties on their behalf.

- Identify THREE ways of acquiring a business avenue from the scenario above. Motivate your answer by quoting from the scenario

Use the table below as a guide to answer this question

BUSINESS AVENUE	MOTIVATION
1.	
2.	
3.	

- Outline THREE contractual implications of EACH type of acquiring business avenues identified above
- Discuss the advantages of EACH type of acquiring business avenues identified above.

TERM TWO

CHAPTER SEVEN

CREATIVE THINKING AND PROBLEM SOLVING

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain/Elaborate on the meaning of creative thinking.
- Differentiate between routine versus creative thinking.
- Differentiate/Distinguish between conventional versus non-conventional solutions.
- Recommend ways in which businesses can create an environment that stimulate creative thinking.(Recap)
- Explain the benefits/advantages of creative thinking in the workplace.
- Define problem solving
- Explain the meaning of a Delphi and Force-Field analysis. (Recap)
- Apply a Delphi and Force-Field analysis from given scenarios/case studies.
- Explain the advantage of working with others to solve problems.
- Interview a business and find out about the following aspects:
 - What are the business problems
 - Create solutions to solve the problems.
 - Assess the solutions against the reality of the business.

TERMS AND DEFINITIONS

TERM	DEFINITION
Delphi technique	A complex problem solving technique that tries to get a group of people to agree on how to solve a complex problem.
Force-field analysis	A problem solving method that looks at two opposing forces that support a problem being solved or a situation changing.
Problem solving	The process of finding solutions to difficult or complex issues.
Business problems	These are current or long term challenges and issues faced by the business.
Creativity	It is an act of turning new ideas into reality.
Competitive	Means as good as or better than others of a comparable nature.
Innovation	Introducing new and original ideas or methods.
Change	Make or become different.
Questionnaires	It is a research instrument consisting of a series of questions for the purpose of gathering information from respondents.
PDCA process/cycle	Plan-Do-Check- Act , this model is used to solve complex business problems

1 Meaning of creative thinking

- Creative thinking refers to thinking differently and looking at something in a new way.
- Creative thinking is about approaching a thought/idea/problem/situation in a new and interesting way.
- It is a process of putting facts/concepts/principles together in new and original ways.
- Businesses need to solve their problems efficiently to find creative solutions to problems.

2 Differences between routine versus creative thinking

ROUTINE THINKING	CREATIVE THINKING
• It refers to ordinary/every day/conventional thinking	• It refers to looking at an opportunity/problem in a new and different way.
• It is suitable for work that requires logic, consistency and attention to detail.	• It is invaluable in keeping the business innovative and relevant in a changing market and to solve new problems.
• It does not lead to new ideas or pattern of thought.	• It leads to an idea that is original compared to existing ideas.
• Requires businesses to apply old thinking patterns to new situations.	• Requires businesses to apply new ways of thinking to old situations.

3 Differences between conventional versus non-conventional solutions

CONVENTIONAL SOLUTIONS	NON-CONVENTIONAL SOLUTIONS
• Ordinary and unimaginative solutions	• Different and creative solutions
• They are solutions obtained through logical, analytical problem solving methods.	• They are solutions that are obtained from creative thinking.
• There is often one solution to a problem	• There is often more than one solution to a problem
• Chooses and looks for what is right	• Changes and looks for what is different
• Concentrates on relevance	• Does not mind chance interruptions
• Moves in the most likely directions	• Explores the least likely directions

4 Ways in which businesses can create an environment that stimulate creative thinking

- Businesses must emphasise the importance of creative thinking to ensure that all staff know that their ideas will be heard.
- Encourage staff to come up with new ideas/opinions/solutions.
- Encourage job swaps within the organisation/studying how other businesses are doing things.
- Encourage alternative ways of working/doing things.
- Respond enthusiastically to all ideas and never let anyone feel less important.
- Reward creativity with reward schemes for teams/individuals that come up with creative ideas.
- Provide a working environment conducive to creativity, free from distractions.
- Make time for brainstorming sessions to generate new ideas, e.g. regular workshops/generate more ideas/build on one another's ideas.
- Place suggestion boxes around the workplace and keep communication channels open for new ideas.
- Train staff in innovative techniques/creative problem solving skills/mind-mapping/lateral thinking.

5 Benefits/Advantages of creative thinking in the workplace

- Complex business problems may be solved.
- Creativity may lead to new inventions which improves the general standard of living.
- Better/Unique/Unconventional ideas/solutions are generated.
- May give businesses a competitive advantage if unusual/unique solutions/ideas/strategies are implemented.
- Managers/employees have more confidence as they can live up to their full potential.
- Managers will be better leaders as they will be able to handle/manage change(s) positively and creatively.
- Managers/Employees can develop a completely new outlook, which may be applied to any task(s) they may do.

- Leads to more positive attitudes as managers/employees feel that they have contributed towards problem solving/Improves motivation amongst staff members
- Managers/Employees have a feeling of great accomplishment and they will not resist/ obstruct once they solved a problem/contributed towards the success of the business.
- Management/Employees can keep up with fast changing technology.
- Stimulates brain function of employees/managers, as they are continuously pushed out of their comfort zone/improving the total well-being of employees.

6 Meaning of problem solving

- It is a clear process to follow whenever a problem needs to be solved.
- A process of finding the correct strategy to respond to a problem.
- Problem solving involves analytical and creative skills.
- Some businesses uses the PDCA process/cycle to solve a problem.
- PDCA stand for Plan-Do-Check-Act.

7 The Delphi technique and Force-Field analysis

7.1 Meaning of the Delphi Technique

- It is a technique that is used to solve new and complex problems.
- The Delphi technique is a popular method of gathering information by using a selected expert's panel on a specific topic.
- The group of specialists/expert's panel never meet face to face.
- This technique uses a series of questionnaires to obtain feedback from experts.
- The questionnaires are used to bring about agreement from different views.

7.2 Ways in which businesses can apply the Delphi Technique in the workplace

- Businesses must invite a panel of experts to research the complaints from customers.
- Experts do not have to be in one place and will be contacted individually.
- Design a questionnaire consisting of questions on how to improve the quality of their product/service and distribute it to the panel members/experts.
- Request the panel to individually respond to the questionnaire/suggest improvements to the products and return it to business.
- Summarise the responses from the experts in a feedback report.
- Send the feedback report and a second set of questions/questionnaire based on the feedback report to the panel members.
- Request panel members to provide further input/ideas on how to improve the quality of their products/services after they have studied the results/documentation.
- Distribute a third questionnaire based on previous feedback from the second round.
- Prepare a final summary/feedback report with all the methods to improve the quality of products.
- Choose the best solution/proposal after reaching consensus.

7.3 Meaning of force field analysis

- Force field analysis is a method of listing, discussing and analysing the various forces for/advantages and against/disadvantages of a proposed change.
- It is often used for planning and implementing change in a business.
- The analysis involves identifying the advantages and disadvantages of a decision.
- This tool is especially useful to overcome resistance to change.

7.4 Ways in which businesses can apply the force field analysis

- Describe the current situation/problem and the desired situation.
- Identify what is going to happen if there is no action taken.
- List all driving/pros and restraining/cons forces that will support and resist change.
- Discuss the key restraining forces and determine their strengths.
- Discuss the key driving forces and determine their strengths.
- Allocate a score to each force using a numerical scale, where 1 is weak and 5 is strong.
- Weigh up the positives and negatives then decide if the project is viable.
- Analyse the restraining forces and best way of advancing them.
- Explore the driving forces and the best way of advancing them
- Choose the force with the highest score as the solution.
- If the project is viable, find ways to increase the forces for change.
- Identify priorities and develop an action plan.

8 Advantages of working with others to solve problems

- The problem can be solved faster and easier.
- Workload decreases if everyone does their share.
- More ideas can be generated increasing the chances of finding the best possible solutions.
- Exposure to other people's thinking patterns and to the way other people approach problems.
- Enables team members to learn from others and accept their points of view.
- Greater results can be achieved.
- Team members have access to a broader base of knowledge, skills and expertise.
- The problem is viewed from different perspectives.
- Problems are analysed in greater detail which lead to better understanding of the problem.
- Promotes creative thinking and idea generation by thinking of as many ideas as possible to solve problems.

CHAPTER EIGHT

STRESS, CRISIS AND CHANGE MANAGEMENT

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain the meaning of stress.
- Outline/Mention/Explain the causes of stress in the business environment e.g. work overload/long working hours/time pressures and deadlines/incompetent managers etc.
- Discuss/Explain the importance of stress management in the workplace.
- Suggest/Recommend ways employees can manage stress in the workplace.
- Define the term crisis and give typical examples of crisis in the workplace.
- Recommend/Suggest ways businesses can deal with crisis in the workplace.
- Outline/Mention internal/external causes of change.
- Identify the causes of change from given scenarios/case studies etc.
- Outline/Mention/Discuss/Explain John P Kotter's 8 steps of leading change e.g.
 - Establish a sense of agency
 - Create a guiding coalition
 - Develop a vision and a strategy
 - Communicate the vision
 - Empower broad-based action
 - Generate short-term wins
 - Consolidate gains
 - Anchor in the culture
- Apply John P Kotter's theory of change using given scenarios/case studies.
- Discuss/Explain/Describe major changes that people and businesses deal with e.g. unemployment, retrenchment, globalisation and affirmative action.
- Suggest strategies business can use to deal with globalisation and affirmative action.
- Recommend ways businesses can deal with/manage change in the workplace.

Terms and Definitions

TERM	DEFINITION
Deadlines	Date by which something should be completed.
Pressures	The use of persuasion to make someone do something.
Incompetence	Inability to do something successful.
Overload	To put many things in or on something or someone.
Vision	The ability to think or plan the future with imagination.
Communication	The imparting or exchanging of information by speaking, writing or using some other medium.
Consolidated gains	To bring together separate parts into a single or unified whole.
Proactive	Controlling a situation rather than just responding to it after it has happened.
Disaster	A sudden accident or a natural catastrophe that causes great damage or loss of life.
Solutions	Solving a problem or dealing with a difficult situation.
Morale	Confidence, enthusiasm and discipline
Turnover	Rate at which something changes

1 Meaning of stress

- Stress is defined as a state of emotional or mental strain.
- The strain can affect memory/concentration and lowers the morale of employees.
- Stress refers to the harmful physical/emotional responses that can happen when there is conflict between job demands on the employee and the amount of control an employee has over meeting these demands.
- It is the wear and tear our bodies experience as we adjust to our changing environments

1.1 Causes of stress in the business environment

- Heavy workload/Unrealistic targets
- Long working hours
- Time pressures and deadlines
- Inadequately trained subordinates
- The necessity of attending meetings
- Work demands intruding on family and personal life
- Keeping up to date with new technology
- Conflict with those in the business with different beliefs and values
- Taking work home
- Interpersonal relationships with colleagues
- The amount of travel required by work
- Incompetent bosses
- Bullying or harassment
- Job insecurity
- Lack of accountability
- Lack of participation in decision-making
- Lack of finances, human resources or physical resources
- Poor working conditions
- A lack of power and influence
- Badly designed shift systems
- Changes in job description, management, in technology or in the economy
- Confrontations and conflicts
- Inadequate training

1.2 Importance of stress management in the workplace

- If stress is not managed effectively, it can get out of control and cause staff health issues.
- Stressed employees are more likely to miss work, both as a way to cope and due to health-related problems.
- Managing stress will curb absenteeism in order to maintain productivity at the workplace
- Workers who suffer from stress often display poor judgement in crisis or emergency situations and this can be avoided through managing stress
- Grievances or complaints that lead to staff turnover can be addressed if stress is well-managed.
- Conflict and interpersonal problems can be avoided if stress is managed at the workplace.
- Having stressed and tired employees serving the public may lead to poor service and unhappy customers and this can be corrected through management of stress.
- Stressed employees are more likely to cling to the old ways of doing things by resisting change and this can be controlled through proper management of stress.
- Constant stress can cause many problems for a business since it can become an unhealthy environment.
- Too much stress can become a barrier to success and lowers the performance of workers.

1.3 Ways employees can manage stress in the workplace

- Develop self-awareness to recognise the signs of stress and its causes.
- Create a balanced lifestyle and minimise extreme emotions.
- Exercise regularly and keep fit.
- Follow a balanced diet
- Get enough sleep and relaxation
- Replace negative self-talk with positive thoughts
- Apply good time-management skills
- Set personal realistic goals and targets
- Accept things one cannot change and focus on things one can control
- Practise time management

2 Definition of crisis

- Crises is an unforeseen event that can cause major changes in an organisation.
- It refers to the sudden and potentially disastrous events.
- It is time of intense difficulty/ trouble/ danger.
- An event that can harm the business's stakeholders/ its property, finances/its reputation.
- Any situation that threatens people at home or work.
- Unforeseen event that can cause major changes in the organisation.

2.1 Examples of crisis in the workplace

- Loss of property due to fire
- Theft of assets and equipment.
- Breakdown in machinery
- Power outages
- An accident
- Serious illnesses without replacements
- Conflict
- Supply shortage
- A sudden increase in production costs
- Unforeseen drop in revenue
- Lawsuit
- Tight deadline
- Natural disasters, e.g. earthquakes, floods, etc.

2.2 Ways businesses can deal with crisis in the workplace

- Businesses should respond appropriately and quickly to lessen the effects of the crisis situation.
- Intervene swiftly and with urgency, but without panicking or overreacting.
- Identify the real nature of the crisis by making a thorough assessment of the situation and seeking expert opinions
- Assess when the crisis happens, quickly find out what has happened without over-reacting.
- Deal with crisis directly and timeously without trying to avoid/minimise the seriousness of the situation
- Plan/Identify and prioritise the actions required
- Inform/Provide accurate and correct information
- Support/Guide others through the situation by providing training and support.
- Attempt to contain the situation to minimise further damage
- Communicate with all stakeholders so that they are properly informed about what has happened, what the impact is and how it is being dealt with.
- Appoint a spokesperson from the management team who will deal with all questions and provide information.
- Regain control/Manage the situation in a calm manner until the crisis is over.
- Obtain expert advice if the crisis falls outside the business' scope of expertise.

- Call for help and seek assistance/advice and support from appropriate agencies and professionals
- Arrange debriefing sessions for all those directly involved in the crisis or who have been traumatised by the event.
- Evaluate how effective the emergency plan was throughout the crisis.
- Amend the emergency plan after evaluating what worked and what did not work.

3 Definition of change

- Change is a process that takes people, employees and organisations from the present to a future desired change.
- New ways to get things done.
- A business needs to change in order to meet changing needs of customers, improved technology and international competition.

3.1 Internal and external causes of change

3.1.1 Internal causes of change

- New business objectives or goals
- High employee turnover where many employees have to join the business
- New policies and procedures implemented in the business
- New management
- Restructuring
- Retrenchment
- New equipment

3.1.2 External causes of change

- Political factors e.g. change in government policy and international relations
- Social factors e.g. poverty/unemployment/HIV & Aids/etc.
- Legal factors e.g. the passing of new laws
- Economic factors e.g. increase in the interest rate
- Technological factors e.g. advances in production techniques and the information and communication technology (ICT) revolution.
- Market factors e.g. new firms entering the market and introducing new products.

3.2 John P Kotter's 8 steps of leading change

- Establish a sense of urgency by motivating their employees.
- Form a powerful coalition/Build the guiding team by bringing together a team of influential people who will convince everyone else that change is needed.
- Develop a vision and a strategy, decide what values are central to the change.
- Communicate the vision frequently and demonstrate the kind of behaviour that they want from their employees.
- Empower broad based action by identifying employees who are resisting change and help them see the need for change.
- Generate/Create short term wins and make sure their businesses taste success early in the change process.
- Consolidate gains/Build on change by analyzing what went right and what needs to be improved after each win.
- Anchor the changes in the corporate culture and this must become part of the core of their business.

3.3 Major changes that people and businesses deal with

3.3.1 Unemployment

- It is when employees lose their jobs because they are fired, or they quit their jobs.
- Change can lead to unemployment due to retrenchment.
- A business may close down/sold/merge resulting to unemployment.
- Coping with unemployment is traumatic and can lead to depression.

3.3.2 Retrenchment

- Retrenchment is when a business cuts the number of workers to reduce their wages and salary bill.
- A process whereby the employer reviews its business needs to increase profits or limit losses, which leads to reducing its employees.
- Economic changes may result in many people being retrenched from their jobs.

3.3.3 Globalisation

- It is a trend where businesses are able to trade in different countries.
- Businesses must deal with and adapt to changes that globalisation brings.
- Globalisation means that many local businesses struggle to compete with bigger/stronger/experienced markets abroad.

Strategies business can use to deal with globalisation

- Adapt your approach to new operational complexities.
- Businesses should be aware of changes in the related industry.
- Keep abreast of new technology/processes and developments that could give your business a competitive edge.
- Investigate overseas markets for their products.
- Source overseas manufactures/materials/suppliers etc.
- Build a strategy for connecting with governments.
- Comply with international standards of quality.
- Comply with international trade laws.
- Upgrade the enterprise's information technology (IT) network to enable online purchasing.
- Be creative in making products desirable and unique.

3.3.4 Affirmative action

- Affirmative action is a policy that ensures that qualified people from designated groups have equal opportunities in the workplace.
- The policy aims to ensure that Black South Africans, women and people with disabilities are well represented in businesses.
- Workers can resent affirmative action appointments and people who have been appointed in affirmative action positions.

Strategies business can use to deal with affirmative action

- Inform employees on how affirmative action will be implemented in the business.
- Businesses must have acceptable affirmative action programmes.
- Businesses must indicate in all their job adverts that they are affirmative action employers.
- They should open themselves to new ideas and opportunities instead of sticking to the past.
- Employees need to focus on the job rather than the differences of the people in the team and how they were appointed.

3.5 Ways businesses can deal with/manage change in the workplace

- Acknowledging that change is stressful and empowering employees to cope with stress.
- Transparency in the process of change is important in building trust with employees.
- Management need to ensure that it communicates with employees and keep all informed of decisions and anticipated changes.
- Do not deviate from the original plan.
- Involve employees in the transformation process.
- The business can manage change easily if employees have interpersonal relationships that are characterised by trust, respect and support.
- Employees should increase their skills levels in order to be more competitive for positions and promotion.
- Acknowledge/Respect differences and focus on achieving the goals/objectives.

CHAPTER NINE

MARKETING ACTIVITIES AND CONCEPTS: PRODUCT POLICY

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Define marketing
- Briefly explain the role of marketing.
- Outline/Mention/Discuss/Explain the following marketing activities:
 - Standardisation and grading
 - Storage
 - Transport
 - Financing
 - Risk-bearing and
 - Buying & selling

MARKETING CONCEPTS

PRODUCT POLICY

- Outline/Mention/Explain/Discuss the product policy with specific reference to types of product, product development, trademarks and packaging.
- Outline/Mention/Discuss categories of consumer goods/products.
- Explain/Discuss the importance of product development
- Outline/Mention/Discuss/Explain the steps/stages of product design.
- Mention/Explain/Discuss the purpose of packaging
- Outline/Mention/Discuss/Describe/Classify types/kinds of packaging.
- Elaborate on the meaning of trademarks
- Discuss/Explain/Describe the importance of trademarks to businesses and consumers.
- Outline/Mention/Explain the requirements of a good trade mark.

Terms and Definitions

TERM	DEFINITION
Idea generation	The process of creating, developing, and communicating ideas which are abstract, concrete, or visual.
Testing	Finding out how well something works.
Business analysis	A research discipline identifying business needs and determining solutions to business problems.
Brand name	A name given by a producer to a product.
Reputation	Belief or opinions that are generally held about someone or something.
Ingredients	Things that are used to make something.
Preference	A greater liking for one alternative over another or others.
Target market	A particular group of consumers at which a product or service is aimed at.

1.1 Definition of marketing

- Marketing is used to deliver value to the customers and satisfying their needs.
- The aim is to link the business products and services with the customer needs and wants.
- Marketing also aims to get the right product or service to the right customer at the right place and at the right time.
- Businesses also establish a target market or maintain market share of a current product and locate the most appropriate customers through marketing activities

1.2 The role of the marketing function

- Support the overall objectives of a business, which is to maximise profits.
- The marketing team needs to work closely with staff members from other business functions.
- Gather information about customer needs, preferences and buying behaviour and share information with other departments.
- Assist the development of the marketing strategy in collaboration with senior management from other business functions.
- Develop a marketing plan using elements of the marketing mix.
- Develop sales forecasts and projections and provide this information to other business functions.
- Decide which products or services the business will sell and how the products will be distributed.
- Determine what prices (cash or credit) they are going to sell.

1.3 Marketing activities

1.3.1 Standardisation and grading

- Standardisation is the process of developing a uniform set of criteria to ensure the production of quality goods.
- Standardisation also refers to taking steps to ensure that goods produced meet the required standards.
- Grading is the process of sorting individual units of a product into specified classes or grades of quality.
- Standardisation lays down the standards or grade of quality.
- Grading is the process of classifying agricultural products into categories according to their quality.

1.3.2 Storage

- Refers to the storage of goods after it have been produced, until it is consumed or dispatched to intermediaries, wholesalers or retailers.
- The storage facility will be influenced by the type of goods that must be stored.
- Storage is needed as goods must often be in the warehouse until the final consumer need the goods.
- When goods are stored, they must be insured against fire/theft/damage etc.

1.3.3 Transport

- Products must be transported from storage facilities to intermediaries, wholesalers or retailers.
- The method of transport will be influenced by the type of products that must be transported.
- Transport ensures that products are moved from the producer to the consumer.

1.3.4 Financing

- Capital is used to meet the financial needs of businesses involved in the various marketing activities.
- Finance is required to achieve the marketing objectives e.g. the marketing function must take into account the cost of advertising.
- Financing in the form of cash, credit or loans is needed to bridge the gap from when the product is completed to when the customer pays for it.

1.3.5 Risk-bearing

- The business enterprise carries the risks involved with owning the goods.
- There is a possibility that products can be damaged/stolen/outdated which may result in financial losses.
- The factory or the warehouse can, for example, catch fire, goods can be stolen or goods can perish.

1.3.6 Buying and selling

- Buying and selling are concerned with the exchange process.
- The buying function deals with searching for customers.
- The selling function deals with promoting the product.
- Some businesses need to buy raw materials in order to manufacture the final products, while some businesses buy and sell goods and services.

2 The components of the marketing mix

- There are four components of the marketing mix namely;
 - Product policy
 - Pricing policy
 - Distribution policy
 - Communication policy

.1 The product policy

2.1.1 Meaning of the product policy

- The product policy is the first component of the marketing function.
- The product is the main component of the marketing mix e.g. when there is no product, there is no business.
- This policy explains how a business is going to develop a new product, design and package it.
- The product policy deals with the features, appearance and the benefits of the product itself.

2.2 Types of products

Industrial goods

- Industrial goods are used in the manufacturing process to produce other goods e.g. spare parts/equipment/machinery etc.

Consumer goods

- These are goods that satisfy the needs of consumers.

2.3 Categories of consumer goods/products

2.3.1 Convenience goods

- These are low priced goods purchased by consumers without much thought.
- Consumers are not willing to spend much effort on buying convenience goods because they differ very little in terms of price, quality and the satisfaction it provides to consumers.
- Example of convenience goods: bread, milk, soft drink, etc.

2.3.2 Shopping goods

- These goods are more expensive than convenience goods.
- Consumers do not buy them very regularly.
- They are prepared to spend a considerable amount of time and energy going to various shops until they are sure that they are getting the best value for their money.
- Examples of shopping goods; television, motor vehicles, clothing, etc.

2.3.3 Speciality goods

- These goods usually have specific brand names.
- Consumers know exactly what they want and are willing to search until they find exactly what they are looking for.
- Examples of speciality good; jewellery, branded clothing, etc.

2.3.4 Services

- Services are not tangible.
- Services are rendered by service providers to consumers.
- Example of services, garden service, etc.

2.3.5 Unsought goods

- Goods that consumers do not think of until the need of such products.

2.4 Importance of product development

- Product design needs to be designed to suit the needs of the customers.
- If the product design does not suit the target market, there will be very little demand for the product.
- Business need to develop new products in order to replace older products in stage 4 when the sale declines.
- Businesses are able to remain competitive because they are always on a lookout for ways to improve their products.
- Products become different from those of the competitors.

2.5 Steps/Stages of product design

- Idea generation/Design and development of product ideas.
- Selecting and sifting of product ideas/Idea screening.
- Concept development and testing/Design and testing of the product concept which should happen before a product is developed.
- Analysis of the profitability of the product concept/Business analysis.
- Consumer responses must be tested using a small sample of the Product/Market testing.
- Technical implementation/Systems and processes are put in the production planning and control process.
- Commercialisation/The product is launched and marketing/advertising campaigns implemented.
- New product pricing/The product is priced and forecasts worked out.

2.6 Purpose of packaging

- Packaging is needed to contain the item or product.
- Protects the product from breakage, germs, moisture or spoilage.
- Promotes the product by indicating the brand and trademark of the company and product.
- Prevent tampering or theft of a product.
- Improves convenience in use or storage of a product.
- Contains information about the product, including uses, any harmful warnings or dosage requirements.
- Make product easier to identify.
- Differentiates the product from other competing products.
- Attracts attention to show value of the product as a marketing tool.
- Links the product to the promotion strategy used to promote the product.
- Reduces storage costs by minimising breakage.

2.7 Types/Kinds of packaging

2.7.1 Packaging for immediate use/Unit packaging

- Packaging needs to be cheap, because once the product is consumed, the packaging is thrown away.
- Example: packet of chips/chocolate bar wrapper

2.7.2 Packaging for double use

- Packaging can be re-used for a purpose other than storing the original contents.
- Consumers will thus be reminded of the particular brand after the original contents have been consumed.
- The container can be used for something else once the content is finished.
- Example: ice cream tub

2.7.3 Packaging for resale

- Retailers buy products in bulk from wholesalers or suppliers.
- Retailers unpack the products to sell them separately in smaller quantities.
- Example: big box containing many boxes of washing powder

2.7.4 Kaleidoscopic/Frequently changing packaging

- Some details of the packaging change to advertise an important sporting event/competition
- The container or wrapper are continually changing.
- Example: the advertising of a sporting event

2.7.5 Speciality packaging

- Packaging must suit the product.
- Example: packaging for an expensive phone.

2.7.6 Combination packaging

- Various complementary products are packaged together because such products are usually purchased together.
- Example. Soap and a face cloth/shower gel and sponge/matching perfume and hand cream.

2.8 Meaning of trademarks

- A trademark is the name/logo/symbol used by a manufacturer/business to differentiate its products/business from competitors.
- A trademark is officially registered and protected by law from unauthorised use.
- It is a registered mark that a manufacturer puts on its products to distinguish its products from other manufacturers.
- Once a trademark has been registered, it may only be used by the person/business that registered the trademark.

2.9 Importance of trademarks to businesses and consumers

2.9.1 Importance of trademarks to businesses

- A trademark establishes an identity/reputation
- A registered trademark protects businesses against competitors who sell similar products.
- A well-known trademark helps to make a brand instantly recognisable
- Offers a degree of protection because branded products can be traced back to the manufacturer.
- Businesses can use trademarks to market/advertise their products.

2.9.2 Importance of trademarks to customers

- Creates a sense of security and consistency for customers.
- Promotes loyalty and creates consistency for customers.
- Consumers are more likely to accept new products that are marketed under a well-known brand/trademark.
- It represents a certain standard of quality and price to the consumer.

2.10 The requirements of a good trade mark

- Must be attractive.
- Must suit the product.
- Suitably designed for the target market.
- Must be different from its competitors.
- Must promote the image of the enterprise.
- Suitable for display purpose.
- Must be environmentally friendly.
- Must protect the contents.
- Should be easy to distribute/handle/transport and use.
- Protect and promote the product.
- Link the product to its promotion strategy.
- Draw the attention of consumers.
- Inform customers on how to use the product.
- Prevent spoiling or damage.
- Reduce storing costs by minimising breakage.
- Easy to handle and display on the shelves in the store.
- Indicate the correct mass or volume of the contents of the product.
- Indicate the ingredients of the product, if applicable.
- Indicate the name and contact details of the manufacturer.

CHAPTER TEN

MARKETING ACTIVITIES: PRICING AND DISTRIBUTION POLICY

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

PRICING POLICY

- Define/Explain the meaning of price
- Discuss/Explain the importance of pricing.
- Outline/Mention/Explain/Discuss the following pricing techniques e.g.:
 - Cost-based/orientated pricing
 - Mark-up pricing
 - Customer/target based pricing
 - Competition based/orientation pricing
 - Promotional pricing
 - Penetration pricing
 - Psychological pricing
 - Bait pricing
 - Skimming prices
- Identify the abovementioned pricing techniques from given scenarios/statements. Quote from the scenario to support your answer.
- Outline/Mention/Explain/Discuss factors that influence pricing.
- Identify these factors from given scenarios/statements. Quote from the scenario to support your answer.

DISTRIBUTION POLICY

- Define/Explain the meaning of distribution.
- Outline/Discuss/Explain the channels of distribution.
- Differentiate/Distinguish between direct and indirect channel of distribution.
- Explain the meaning of intermediaries.
- Outline/Mention different types of intermediaries.
- Explain the role of intermediaries in the distribution process.
- Draw the channel of distribution.
- Briefly explain the reasons why manufactures may prefer to make use of direct or indirect distribution methods.

Terms and Definitions

TERM	DEFINITION
Costs	An amount that must be paid or spent to buy or obtain something.
Mark-up	The amount added to the cost price of goods to cover overheads and profit.
Bait	It is when someone deliberately acts in a way to elicit an emotional response from another person.
Wholesalers	They are large-scale traders who operate as intermediaries between manufacturers and retailers.
Retailers	They are smaller-scale traders that operate as intermediaries between wholesalers and consumers.
Intermediary	A person/business that acts as a link between people and businesses to bring about the sale.
Substitutes	A person or an object acting in place of another.
Websites	A set of related web pages located under a single domain name.
Agents	A person who organises transactions between two parties.
A broker	A person who buys and sells goods for others
Logistics	The activity of organising the movement of goods, equipment, accommodation, etc.
Profit margin	The portion of the selling price that is not allocated to input costs/overheads and contributes to the gross profit margin of the business.
Cash and carry	Wholesaler purchase where payment is made in full by the customer.
Direct distribution	Exchange of products/services between the producer and the consumer
Indirect distribution	A distribution channel with at least one intermediary between the producer and consumer

MARKETING ACTIVITIES (PRICING & DISTRIBUTION POLICIES)

1 The pricing policy

1.1 The meaning of price

- The price of a product refers to the amount of money that must be paid by the buyer to experience the benefits of the product.
- The pricing policy specifies what and how the business will work out the pricing of its product.

1.2 The importance of pricing

- The pricing process needs to consider flexibility/discount/territory/life cycle status/allowance.
- Pricing affects the number of products that an enterprise is able to sell, which in turn, affects profitability.
- The price of a product can influence the consumers' attitude towards the product or the brand.
- If the price is believed to be too high, fewer consumers may buy the product.
- If the price is too low, consumers may perceive the good as being of poor quality.
- The pricing policy should explain when and to whom discounts will be granted.
- The price of a product must make provision for transport costs.
- The price of a product must make provision for VAT.
- Low sales result in stockpiles of unsold product that have to be stored and not repaying the cost of manufacturing that product.

1.3 Pricing techniques

1.3.1 Cost-based/orientated pricing

- Involves setting the price of a product based directly on its cost.
- The business calculates the cost of producing one unit of the product, called unit cost, and then adds a standard mark-up to obtain the price.
- The costs of production and supply are calculated and a suitable profit margin is added to determine the selling price.

1.3.2 Mark-up pricing

- It is calculated as a percentage.
- This percentage is calculated from the cost per unit.
- Example will include a sandwich-making business may calculate that the cost of producing a sandwich is R10 and decide on a mark-up of 100%, setting the price at R20.

1.3.3 Customer/target based pricing

- It is when companies set certain targets to achieve.
- Based on what the business believes customers are prepared to pay.
- The perception of the product it wants to create in the customers' mind.

1.3.4 Competition based/orientation pricing

- Sets its price based on what competitors are charging customers.
- This approach is also called going rate pricing or competitive pricing.
- The more competition in the market, the lower prices are likely to be.
- If the price is set at a higher level than of competitors, consumers must be convinced that the good is better in terms of quality and usefulness.

1.3.5 Promotional pricing

- Businesses offer sales or special offers to attract customers.
- It is used when the price is lowered for a short period of time.
- At certain times of the year, end of season ranges or old stock may be sold off at discount prices.
- Example include special offers/discounts that are valid for a limited period of time/"Buy one, Get one free" type promotions.

1.3.6 Penetration pricing

- Products are sold at very low prices to attract consumers when the product is introduced to the market.
- The aim is to convince the customers to buy a product.
- As soon as the introductory offer is over, the price is increased.
- It is often used for new products and it is not a profitable long-term marketing strategy.

1.3.7 Psychological pricing

- This strategy is used when the business wants the consumer to respond on emotional basis rather than a rational one.
- It is used to give an impression that an item is cheaper than it really is.
- A CD player is priced at R699 instead of R700.
- Consumer mentally place the item in the R600 rather than the R700 price range.

1.3.8 Bait pricing

- Prices are usually set lower than the items cost price to attract customers.
- It is used to attract customers into a shop to buy the product and other items.

1.3.9 Price skimming

- Prices attached to a new innovative product that is considered unique and prestigious.
- Higher prices are charged to test the demand.
- There are consumers who are prepared to pay higher prices, because such inventions have prestige value.
- As the product gains popularity, the price of the product is gradually reduced.
- Price skimming can be successful and profitable in the short term

1.4 Factors that influence pricing

1.4.1 Input costs

- The higher the input costs, the higher the final price. An increase in labour or transportation could increase the final price.

1.4.2 Demand for the product

- The higher the demand, the higher the production volume, the lower the input costs, the lower the final price.

1.4.3 Target market

- Income level of the target market.

1.4.4 Type of product

- Luxury products can be priced higher.

1.4.5 Pricing technique used to determine the price.

- Promotional pricing could be lower than demand oriented pricing.

1.4.6 Competitive and substitute products

- If there are similar products that could replace a product, a high price may result in loss of sales to the substitute.
- If the price and demand of complement good increases, the other product may increase at the same rate.e.g. prices of computers and keyboards may increase at the same time.

1.4.7 The economic climate and availability of goods and services

- When there is a shortage of a certain product, people are prepared to pay more for it.

1.4.8 Forms of markets

- The following forms of markets will affect the price chosen

Perfect competition	• There are many buyers and sellers • Products are similar and there are many substitute products. • Example: Shares being traded on the JSE
Monopolistic competition	• There are many suppliers/sellers • Each supplier has his/her own brand of a particular product • Example: Car manufactures/dealers e.g. Toyota/Nissan/Ford etc.
Oligopoly	• Only a few suppliers/sellers control the prices of products. • Product are homogenous/same • Example: MTN, Vodacom /Cell C
Monopoly	• Only one supplier/seller controls prices and products • Profit margins are usually higher because consumers do not have any alternative • Example: Eskom

2 THE DISTRIBUTION POLICY

2.1 The meaning of distribution

- Every business needs to have a distribution policy so that it knows how and where products need to be distributed.
- Distribution is about how the business gets its products to its customers.
- Once products have been developed and priced, they need to be made available to consumers at the right place and at the right time.
- Products need to be distributed from the place where they were manufactured to the market place.

2.2 The meaning of channel of distribution

- Distribution channel is the path which the product is moved from the producer to the consumer.
- It is important that the channel is the most effective and cost efficient for the product and reaches the target market.
- A distribution channel is made up of many businesses that help move the product from the producer to the final user/consumer.
- It starts with the producer and ends with the final consumer.
- The main aim of the distribution function is to ensure that the right product is available at the right time.
- There are three kinds of participants in a distribution channel :
 - The service provider
 - Intermediaries
 - Customers

2.3 Meaning of intermediaries

- All the people that fall into the distribution process between the producer and the consumer.
- They are middlemen and act as negotiators and mediators between the producer and the consumer.
- Intermediaries can be wholesalers, retailers, agents and brokers.
- They are responsible for the transportation, storage and delivery of the goods and services.
- The organisations involved in the distribution channel are known as intermediaries.

2.3.1 Different types of intermediaries

- Wholesalers primarily sell goods to retailers.
- Retailers market directly to the final consumer.
- Agents sell products on behalf of manufactures for a commission.
- Brokers is a person who buys and sells goods for others.

2.3.2 The role of intermediaries in the distribution process.

- Finding and locating buyers on behalf of the producer.
- Help in promoting the product.
- Intermediaries are specialists in selling, so the producer may be able to reach a wider audience.
- They can achieve greater sales by using intermediaries.
- The producer may not have the expertise or resources necessary to sell directly to the public.
- The intermediary may be able to provide more efficient distribution logistics, for e.g. transporting the product to various points of sale.
- Overall distribution costs may be lower using an intermediary than if the business undertook distribution itself, even when the intermediary's commission is taken into account.

2.4 The different types of distribution channels

Manufacturer/Producer→consumer

- This is the shortest channel as the producer sells directly to the consumer.
- It is usually found in the public sector

Manufacturer/Producer→retailer→consumer

- The producer sells goods to the consumer using the retailer.
- This is a single distribution channel and it is aimed at selling to large scale retailers

Manufacturer/Producer→wholesaler→retailer→consumer

- This is called a traditional distribution channel, the consumer buys from the shop, which buys from a wholesaler, which in turn gets its stock in bulk from the manufacturer.
- Consumer products such as maize meal are sold by the producers to the wholesalers, who again sell to retailers then to the consumers.
- This distribution channel is usually used in rural areas.

Manufacturer/Producer→wholesaler→retailer

- This is where the wholesaler buys from the producer and sells directly to retailers.
- The cash and carry wholesaler sells directly to retailers for consumption.

Manufacturer/Producer→agent→wholesaler→ retailer→ consumer

- Agents often connect the manufacturer to the wholesaler or retailer.
- The more intermediaries there are in a distribution channel the more consumers can be reached.
- Especially consumers in the rural areas who will also have access to goods.

2.5 Differences between direct and indirect channel of distribution

Direct channel of distribution	Indirect channel of distribution
• Carry all the risks.	• Risks are shifted to intermediaries during the distribution of the product to end user
• Involves the producer and the consumer	• There are middlemen between the producer and the consumer
• The wholesaler and the retailer are cut from the process	• The wholesalers and retailers act as negotiators between the producer and consumer.
• Marketing and selling of products to the customers without involving the middleman.	• Specialised agents deal with customers
• Provides immediate feedback	• Very little feedback from customers.
• Better end-user price as no intermediaries costs	• Transportation and storage is taken care of by intermediaries.
• Full control over the product and marketing.	• Manufactures make use of middlemen such as wholesalers/agents/brokers/retailers.
• Needs more specialised employees' who are trained.	• The manufacture is not knowledgeable about the distribution of the product
• Better end user price as no intermediaries costs	• Products may be expensive as intermediary costs are added.

2.6 Reasons why manufacturers may prefer to make use of direct or indirect distribution methods.

2.6.1 Reasons why manufacturers may prefer to make use of the direct distribution methods

- Manufacturers have control over the product and marketing.
- They achieve better end-user price as there are no intermediary costs.
- The business does not need to share its profit margin with intermediaries.
- Products become very expensive once all the intermediaries have added their own mark-ups.
- There is direct contact with target market for feedback and improvements.
- Sales staff provide customer information for future market research.
- Selling through the internet allows smaller businesses to market their products all over the world.
- Businesses websites can serve as both a distribution method and a promotion method.
- Well trained sales staff are able to promote products effectively and establish good relationships with customers.
- Suitable intermediaries may not be available/Intermediaries may not be willing to sell the particular product on behalf of the manufacturer.

2.6.2 Reasons why manufacturers may prefer to make use of the indirect distribution methods

- Specialised agents deal with customers.
- Transportation and storage is taken care of by intermediaries.
- There is no need to hire specialised staff to do sales complaints.
- They do not have to deal with customer complaints.
- They enjoy the benefits of bulk orders from wholesalers.
- Better market coverage is achieved.
- Intermediaries understand how the market operates.
- Consumers are often spread across the country, distribution needs to be widespread as well.
- Direct distribution requires a large investment in advertising.
- Intermediaries sometimes provide credit to consumers, which will help attract more consumers.

CHAPTER ELEVEN

MARKETING ACTIVITIES: COMMUNICATION POLICY & MARKETING IN THE INFORMAL SECTOR

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

COMMUNICATION POLICY

- Define/Explain the meaning of a marketing communication policy.
- Outline/Mention/Explain/Discuss/Describe the following components of the marketing communication policy:
 - Sales promotion
 - Advertising
 - Publicity and
 - Personal selling
- Explain the purpose of sales promotion and give practical examples.
- Explain the purpose of advertising and give examples of advertising medium.
- Elaborate on the meaning of publicity.
- Explain the role of the public relations in publicity.
- Give examples of publicity e.g. press release to the media.
- Explain the meaning of personal selling
- Justify the effectiveness of personal selling in promoting a business product.

MARKETING IN THE INFORMAL SECTOR

- Define the informal sector
- Explain the advantages of marketing in the informal sector
- Justify the reasons why the informal sector prefers to use direct distribution.
- Explain/Discuss how the informal sector uses indirect distribution.

Terms and Definitions

TERM	DEFINITION
Promotion	The publicizing of a product, organisation, or venture so as to increase sales or public awareness.
Target market	A particular group of consumers at which a product or service is aimed at.
Credibility	The quality of being trusted and believed in.
Persuade	Cause someone to believe something, especially after sustained effort/to convince.
Communication	The imparting of information by speaking, writing, or using some other medium.
Endorsements	The act of giving approval or recommendation to something.
Banners	A long strip of cloth bearing a slogan or design/advertisement appearing on a web page.
ASA	The Advertising Standards Authority

MARKETING ACTIVITIES: COMMUNICATION/PROMOTION POLICY

1 The meaning of a marketing communication policy

- The main aims of the communication policy is to increase the sales of a product/services.
- The purpose of the marketing communication policy is to inform existing and potential customers about the product.
- It explains the features and benefits of using the product.

2 Components of the marketing communication policy

2.1 Sales promotion

- Sales promotion is usually a short-term tactic to boost sales.
- It can be used to complement other promotion methods.

2.1.1 The purpose of sales promotion

- Inform consumers about the product.
- Persuade potential customers to buy the product now rather than later.
- Remind the target market of the availability of a product.
- Increase the sales of a product or service.
- Introduce new products or to extend the product life cycle.

2.1.2 Examples of sales promotion

- Many shops offer special offers. Buy One, get One Free promotions
- Money-off coupons
- Discounts vouchers
- Free gift vouchers
- Joint promotion to encourage customers to purchase their brands.
- Loyalty cards e.g. Pick n Pay offers the smart card and Clicks the Club Card etc.
- Free gifts or accessories when buying a product
- Bonus pack e.g. larger items are sold at the price of the smaller item
- Competitions linked to buying a product
- Charity promotions e.g. donations
- Point of sales displays that show off the product and a free product samples.

2.2 Advertising

- Advertising is used to inform, persuade and remind the consumer about the product or service
- Advertising is a paid and non-personal marketing communication tool.
- It involves communication with many consumers at the same time.

2.2.1 The purpose of advertising

- The purpose of advertising can be explained in terms of AIDA as follow:
 - **Attract:** attract the attention of people
 - **Interest:** arouse their interest in the product
 - **Desire:** create the information needed to persuade the consumer to act and buy the product.
 - **Action:** provide the information needed to persuade the consumer to act and buy the product.

2.2.2 Examples of advertising medium.

- The examples of advertising medium can be classified into the following FOUR main categories:

Printed media	Broadcast media	Direct Mail	Web-based media
Newspapers Magazines	Radio Television Cinema	Brochures Pamphlets Billboards Directories Posters Leaflets	On-line magazines Websites Search engines Banners Emails and SMS Internet

2.3 Publicity

- Publicity is a free non-personal form of communication that the business and its product can receive through mass media e.g. newspaper and television
- Publicity is unpaid communication in the mass media about a business enterprise, its employees, its goods or services.
- The business has no control of what is said about them.
- It can take form of a news story in a newspaper, a press release or a media statement.
- Endorsements by famous people draw attention to a company's brand and products.
- Some companies hand out gifts and samples with company branding on them.
- It is information about a business published by an independent third party such as a newspapers or television station.
- Ensures that the public know about the business, its social programmes, community involvement and fair labour practices etc.
- Publicity can be positive or negative as it is not paid for by the business.

2.3.1 Examples of publicity

- Internal publicity is the display of goods, the appearance of the shop and its employees as well as the staff's behaviour towards customers.
- Many companies create brand exposure for the company by running competitions which provide exposure to the company's products.
- Endorsements by famous people draw attention to a company's brand and products.
- Sports and movie stars are often seen wearing certain brands of clothing which create public awareness for the brand.
- Some companies hand out gifts and samples with company branding on them, e.g. at conferences where delegates receive goodie bags.
- Some companies offer sponsorship to sporting events or community events.

2.3.2 Role of the public relations in publicity

- Public relations aims to present a favourable image of the business and its products or service.
- Many businesses outsource the PR function to an outside agency to take advantage of their specialised knowledge.
- The PR department builds good relationships with representatives of the media and press.
- They keep the media informed of news about product launches and opening of new factories or shops for the attention of the public.
- The PR function supports marketing efforts to establish and build a brand identity.

2.4 Personal selling

- Personal selling involves face-to-face communication between sales people and customers or potential customers to promote the product.
- The business uses sales people who have direct contact with customers.
- Sales people have specialised knowledge to the product and can advise customers on how to use the product.
- The sales person is ready to answer all the questions asked by the consumer.
- Sales people promote the product through their attitude and appearance.
- The message can be individualised to suit the needs of the consumer.

2.4.1 The effectiveness of personal selling in promoting a business product

- Personal selling can be made telephonically but are usually face to face and offer the most flexible means of delivering a promotional message.
- Done by experienced sales people who develop charisma and become skilled in getting people to pay attention to them.
- It is very effective especially in the case of expensive industrial goods such as machinery and shopping goods e.g. stoves/fridges/cell phones etc.
- Involves a very personal touch with specific attention giving to customer's needs and requirements.
- Most effective way to build relationships between the sales person and the customer.
- It is also a very good way of maintaining good relationships and ensuring on-going business and sales.
- The sales person can adjust his/her message to be more attractive to the person listening.

3 MARKETING IN THE INFORMAL SECTOR

3.1 Definition of the informal sector

- People in the informal sector do not own registered businesses and they are not registered for tax.
- They are not recorded by the Central Statistics Services.
- The informal sector is also known as the secondary economy.
- It is impossible to know to what extent the informal sector contributes towards the national income.
- The informal sector is mainly a cash industry.
- The operators in the informal sector perform in the primary, secondary and tertiary sector of the economy.

3.2 Advantages of marketing in the informal sector

- It is easy and inexpensive to enter the informal sector.
- No education needed to enter the informal sector.
- It provides job opportunities for unemployed people.
- Gives people the opportunity to be entrepreneurs and learn about business.
- People who are employed in the informal sector gain working experience that enables them to qualify for job opportunities in the formal sector.
- There is a great deal of interaction between the formal and the informal sectors.
- There is little competition in the informal sector.
- Provides needed goods and services in proximity to the market.

3.3 Reasons why the informal sector prefers to use direct distribution

- The seller has control over the product.
- Better end-user price as there is no intermediary costs.
- Direct contact with customers for feedback and improvements.
- Well trained sales staff are able to promote products effectively and establish good relationships with customers.
- By cutting out the middleman, prices are lower.
- Sales staff provides customer information for future market research.

3.4 Ways in which the informal sector uses indirect distribution

- Farmers may deliver their produce to the spaza shops.
- Spaza shops purchase their stock from wholesalers.
- Many informal businesses rely on agents to distribute information or carry out services.
- Retailers in the informal sector may purchase products from the wholesalers in order to sell them in the informal market.

CHAPTER TWELVE

ELECTRONIC MARKETING & FOREIGN MARKETING

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

ELECTRONIC MARKETING

- Define electronic marketing and give examples.
- Identify methods of electronic marketing from given scenarios/case studies/cartoons/pictures etc.
- Explain/Discuss the impact (positives/advantages AND/OR negatives/disadvantages) of electronic marketing.
- Compare the marketing mix of the formal sector with the informal sector e.g. the product of the informal sector usually does not have a logo or trade mark as compared to the formal sector.

FOREIGN MARKETING

- Define foreign marketing
- Outline/Mention/Explain/Discuss restrictions and regulations that control foreign marketing e.g.:
 - Tariffs trade agreement
 - Export subsidies
 - Protection policies etc.
- Suggest ways in which South African businesses can enter into a foreign market e.g. exports, licensing, joint ventures, direct investments etc.
- Explain/Discuss how the production function can align its processes in order to meet the global demand e.g.
 - Production systems
 - Planning
 - Safety
 - Quality and
 - Costing

TERMS AND DEFINITIONS

TERM	DEFINITION
Electronic marketing/e-marketing	Electronic marketing/e-marketing is when business use an electronic medium to perform the marketing activities.
Smart phone	Mobile telephone able to connect with internet and social networks
Websites	A page or collection of pages on the World Wide Web that contains specific information which was all provided by one person or entity and traces back to Uniform Resource Locator (URL)
Search engines	A programme that searches for or identifies items in a database that corresponds to keywords or characters specified by the user.
Social network	The use of dedicated websites and applications to interact with other users, or to find people with similar interests to one's own.
Blogging	A discussion or informational website published on the World Wide Web consisting of informal text entries/posts.
Viral marketing	A method of marketing whereby consumers are encouraged to share information about a company's goods or services via the internet.
Hello Peter	It is a platform connecting South African consumers and businesses. Consumers can share their good or bad experiences.
Imports	Goods or services that are produced outside of South Africa
Export	Goods or services that South Africa produces locally and sell in other countries.
Trade agreements	They are made to facilitate and encourage trade between countries

1 ELECTRONIC MARKETING

1.1 Definition of electronic/e-marketing/e-commerce

- Electronic/e-marketing is the process of marketing a product or service using internet marketing and mobile marketing.
- Internet marketing is used by retailers such as Pick n Pay/Woolworths Foods/Exclusive Books etc. Marketing done via e-mail and wireless media.
- Many businesses enterprises have created websites that can be accessed by consumers.
- Cell phone advertising is another form of electronic marketing.

1.2 Methods/Examples of electronic marketing

- Email marketing.
- Websites.
- Search engine marketing.
- Mobile marketing.
- Banner marketing.
- Social networking/ Facebook/ Instagram /Twitter
- Blogging
- Content creating and sharing/ You Tube
- Viral marketing
- SMS marketing

2 The advantages and disadvantages of electronic marketing

2.1 Advantages/Positives

- Costs are lower and there is better return on investment
- Increased interactivity between business and customer
- Faster responses between the business and customer
- Able to measure and use data from target market
- Reduce costs of intermediaries through automation and use of electronic media
- Fast and successful way of brand visibility
- Allows for immediate feedback to the business on consumer views.
- Opens the possibility of marketing products to consumers world-wide.
- The marketing communications can reach potential consumers throughout the world in seconds, at a low cost.

2.2 Disadvantages/Negatives

- There is a lack of personal contact
- It depends on technology which can be unreliable at times.
- The maintenance costs of updating the whole website can be high
- Increases competition through globalisation
- Less flexible pricing structures
- Security not guaranteed due to phishing and fraud.
- Spam emails can irritate people and earn the business a bad reputation
- Bad public relations where anyone can spread their negative opinion about a business e.g. on Hello Peter or on Twitter.
- Potential customers who do not have internet can be excluded from e-marketing.

3 Comparisons between the marketing mix of the formal sector and informal sector

Marketing mix	Formal sector	Informal sector
Product	The product usually has a logo or trade mark.	Businesses tend to provide basic products and services in small amounts. Packaging is likely basic with little information.
Price	Prices of products are often higher.	Prices of products are often cheaper
Distribution	Usually uses indirect distribution channels where products pass through agents, wholesalers and retailers.	Uses a direct distribution method where goods move directly from the manufacturer to the consumer.
Communication	Advertising tends to be limited to options such as pamphlets	May use a variety of advertising methods, including electronic marketing

4 FOREIGN MARKETING

4.1 Definition of foreign marketing

- Foreign marketing is the marketing carried out by companies overseas or across national borders.
- Products can be marketed either in our own country, which is domestic marketing or in international countries, which is foreign marketing.
- Businesses market their products in more than one country, across national borders.
- Local companies can expand their local target market and take advantage of overseas prices and exchange rates.
- Businesses are also able to export and import goods and services through e-marketing and advertising.

4.2 Restrictions and regulations that control foreign marketing

4.2.1 Trade agreements

- Certain countries enter into trade agreements in order to promote trade between those countries.

4.2.2 Tariffs

- Custom tariffs or import duties are taxes placed on goods brought into South Africa.
- The import taxes are imposed on imports in order to control the amount of money leaving the country and to encourage South Africans to buy local goods.

4.2.3 Export subsidies

- South Africa wants to encourage exports to foreign countries and therefore provides a subsidy on certain goods and services that are exported.
- Certain products that are exported may get reduced transport rates to encourage lower prices and therefore increase international sales.

4.2.4 Protection policies/Protectionism

- The South African government puts laws in place to protect local industries
- Goods that fall under these protection policies will have additional taxes added to them which make them more expensive than local ones
- This is done to ensure that consumers buy local goods and money stays in the country.

4.3 Ways in which South African businesses can enter a foreign market

4.3.1 Direct exporting

- Businesses sell directly into the market the business has chosen using in the first instance their own resources.
- Once businesses established a sales programme, they turn to agents and/or distributors to represent them further in that market.
- Agents and distributors work closely with businesses in representing the business's interests.
- Agents/distributors become the face of the company and thus it is important that the choice of agents/distributors are handled in the same way used in hiring staff.

Licencing

- Licencing is an arrangement where a firm transfers the rights to the use of a product or service to another firm.
- It is a useful strategy if the purchaser of the licence has a relatively large market share in the market they want to enter.
- Licences can be for marketing or production.

4.3.2 Franchising

- Franchising works well for firms that have a reputable business model e.g. food outlets that can be easily transferred into other markets.
- When a business uses franchising, the business model should be unique or have a strong brand recognition that can be used internationally.

4.3.3 Partnering

- Partnering is almost a necessity when entering foreign markets and in some part of the world it may be required, e.g. in Asia
- It can take a variety of forms from a simple co-marketing arrangement to a sophisticated strategic alliance for manufacturing.
- Partnering is a useful strategy in those markets where the culture is different from that of the business as local partners bring local market knowledge, contacts and customers.

4.3.4 Joint ventures

- Joint ventures are a particular form of partnership that involves the creation of third independently managed company.
- Two companies agree to work together in a particular market, either geographic or product and create a third company to undertake this.
- Risks and profits are normally shared equally, e.g. Sony/Ericsson

4.3.5 Buying a company

- Buying an existing local company may be the most appropriate entry strategy.
- It may be costly and determining the true value of a firm in a foreign market will require substantial due diligence.
- This entry strategy will immediately provide you the status of being a local company.
- The business will receive the benefits of local market knowledge, an established customer base and be treated by the government as a local firm.

4.3.6 Piggybacking

- Piggybacking is a particularly unique way of entering the international arena.
- If a business has a unique product or service that they sell to large domestic firms that are currently involved in foreign markets, the business may want to approach them to see if their service or product can be included in their inventory for international markets.
- This reduces the business's risk costs because they are selling domestically and the larger firm is marketing their product or service for them internationally.

4.3.7 Turnkey projects

- Turnkey projects are particular to companies that provide services such as environmental consulting, architecture, construction and engineering.
- A turnkey project is where the facility is built from the ground up and turned over to the client ready to go- turn the key and the plant is operational.
- This is a very good way to enter foreign markets as the client is normally a government and often the project is being financed by an international financial agency such as the World Bank.
- The risk of not being paid is eliminated.

4.3.8 Greenfield Investments

- Greenfield Investments require the greatest involvement in international business.
- A Greenfield investment is where you buy the land, build the facility and operate the business on an ongoing basis in a foreign market.
- It is costly and holds the highest risk but some markets may require the business to undertake the cost and risk due to government regulations, transportation costs, and the ability to access technology or skilled labour.

5 Ways in which the production function can align its processes in order to meet the global demand

5.1 Production systems

- Large quantities require a continuous production system such as mass production, as this system is the most economical.
- Smaller quantities may require an intermittent production system such as a project system or producing a once-off output/job-lot system.
- Project system is usually done when goods are produced for different export markets with different requirements.
- Products might need to be adapted, modified or redesigned to suit different customer needs.
- Processes should be as efficient as possible and that the most appropriate process is used for the particular good or service.
- New sources of raw materials/labour may mean that new production facilities can be developed in a foreign country, leading to globalisation of production as well as sales.
- Production methods and quality management systems implemented by business can change as some countries have strict quality and safety requirements.

5.2 Planning

- The production function needs to be closely involved in the planning and decision making.
- Planning for foreign marketing should include the following considerations:
 - The trade regulations and restrictions of different countries
 - The economic environment in different countries such as industrial structure and economic distribution.
 - The political-legal environment involving the individual and cultural attitudes towards buying products from foreign countries.
 - The cultural environment involving cultural values towards certain products that can differ from one country to another.

5.3 Safety

- Product safety standards will have to be assessed in line with the current agreements and prescriptions from the foreign country.
- The production function has to ensure that exported products meet the safety regulations set by the government of the foreign country
- A South African business may experience difficulties unless research into safety, quality and packaging regulations are taken into account

5.4 Quality

- The production function must ensure that the exported products meet the standards set by the government of foreign country.
- Certain export markets will require only the best quality products, especially in the fresh fruit industry.
- The production system might have to be adjusted in order to do more quality checks throughout the packaging process.
- A quality standard used throughout the world is the ISO 9000 series.
- This series provides recommendations on how a quality system should be compiled for a particular type of business.

5.5 Costing

- The costing of production and marketing for foreign markets must be carefully planned and executed as there are many costs that must be added to the production costs.
- The production function may require special raw materials, machines and specialised labour
- The marketing department may require specialised advertising, transport and packaging.
- The total of all costs needs to be considered to determine whether this venture is profitable.
- The fluctuation of the exchange rate may further complicate the calculations.
- Although exports bring money into the country transportation, custom duties can add up and potentially make the good or service very expensive

CHAPTER THIRTEEN

PRODUCTION FUNCTION: PRODUCTION SYSTEMS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

MASS PRODUCTION

- Explain the role of the production function in the manufacturing process.
- Define mass production and give examples.
- Explain/Discuss the characteristics/advantages/disadvantages of mass production.
- Identify mass production from given scenarios/case studies/cartoons/pictures.

BATCH PRODUCTION

- Define batch production and give examples
- Explain/Discuss the characteristics/advantages/disadvantages of batch production.
- Identify batch production from given scenarios/case studies/cartoons/pictures.

JOB PRODUCTION

- Define job production and give examples
- Explain/Discuss the characteristics/advantages/disadvantages of job production.
- Identify job production from given scenarios/case studies/cartoons/pictures.
- Explain the situation in which each production system is used.

Terms and Definitions

TERM	DEFINITION
Production	Process by which raw materials are transformed into goods and services to satisfy the needs of consumers
Transformation	A marked change in form, nature, or appearance.
Inputs	What is put in, taken in, or operated on by any process or system.
Assembly lines	A series of workers and machines in a factory by which a succession of identical items is progressively assembled.
Standardisation	A process of maintaining some level of consistency in the product or a service that a company provides.
Capital intensive	Refers to those industries that require large capital investments in machinery, plant and equipment in order to produce goods and services.
Specialisation	A strategy to focus on production of a limited range of products and services.
Quality	Distinctive attribute or characteristics possessed by someone or something.
Conveyer belts	A continuous moving band of fabric, rubber or metal used for transporting objects from one place to another.

PRODUCTION FUNCTION

1 The role of the production function in the manufacturing process

- Production refers to the conversion of raw materials into final products.
- This function transforms inputs into useful outputs.
- The production function must make the right decision when deciding which production system will be suited for the production/manufacturing business since it will be very costly to change systems.
- The production function must strive continuously to produce products that exceed customer expectations.

2 The meaning of production system

- A production system is the process that is followed to manufacture products.
- There are two types of production processes i.e. uninterrupted and interrupted.
- An uninterrupted production process means that the products flow continuously from start to finish.
- Interrupted production occurs when orders with different specifications are placed and variety of goods are produced in limited quantities.
- There are three main production systems job/batch and mass production

3 Mass production/uninterrupted production

3.1 Definition of mass production

- Mass production involves assembly lines.
- This is the production of large quantities of similar items.
- Products suited for mass production have a large and constant demand
- A single assembly line produces high volumes of identical products.
- Different production activities are all connected in a single assembly line.
- The product moves down the line from one machine to another.
- Example: tinned foods/soap/toothpaste, etc.

3.2 Characteristics of mass production

- Mass production is capital intensive.
- The cost decreases as production increases.
- A production method according to which a standardised product is produced in large quantities.
- Specialised single-purpose machines designed to supply a product of good quality at high speed are used.
- Mass production involves conveyer belts that move goods from one worker to another.
- Goods are produced in large quantities.
- Workers can specialise because the work is of a routine nature.
- The task performed by workers is easy, as a result, the cost of the machinery is very high in relation to the cost of the labour.
- Products produced by mass production method are usually cheaper per unit, compared to products produced by other production methods

3.3 Positives/Advantages

- The production control process is simple
- The machines are operated by skilled workers.
- There is a greater control over the production process
- Inexpensive to run as very little intervention is required.
- Low skilled workers can often operate the equipment resulting to a reduced cost of labour.
- Increases productivity by using people and machines optimally.
- Each person is trained to do a specific job and specialises in that job.
- The unit cost of the product is cheaper resulting to a reduced price of a final product.

- Large volumes of products can be produced in a short period of time.
- Speeds up the production process making the turnaround time much quicker
- Employees are productive because the same tasks are performed many times
- Products are made quickly and in large quantities, which results in lower cost per unit.
- More products are made using the same machinery and workers, resulting in larger profits.
- Stock levels are kept low, reduces storage and other costs and improves cash flow in the business.
- Machines do most of the work, which means consistency/better quality goods/ fewer mistakes/damages/losses as a result of human error.
- Workers are skilled to perform repetitive tasks, which results in higher productivity.
- Workers and machines are used to optimum levels because the production process is standardised.
- Most of the work is done by machines, which means fewer workers are needed and labour costs are reduced.
- Quality control is easier to perform because the production system is continuous and the products are standardised

3.4 Negatives/Disadvantages

- The speed at which products are manufactured is fixed
- Workers can become bored as it is repetitive.
- It is difficult to deal with unexpected changes in demand.
- Equipment requires highly specialised operators that earn high income.
- If one piece of machinery breaks, the whole production process stops.
- Production stoppages through breakdowns in machinery can cost a business a lot of money.
- The production process is inflexible as it does not allow for unique products.
- A large amount of capital is invested in specialised single purpose machines.
- If the design of the product changes, the machines can only be modified at a very high cost.
- It is expensive to set up a factory and purchase the machinery for mass production.

4 Batch production/Interrupted production/Flow production

4.1 Definition batch production

- A production system method used to produce batches/groups/a limited number of similar goods.
- Goods within a batch are identical, but goods can vary from batch to batch.
- The production of one design is completed before going on to produce another batch of a different design
- Examples: A batch of school uniforms for a specific school/bakery/furniture manufacturer, etc.

4.2 The characteristics of batch production

- Volumes of products produced are low.
- Raw materials or semi-finished goods move through the production system one stage at a time.
- Products are produced in batches rather than one by one.
- All products are identical within each batch, but batches are different from each other.
- The machines and tools used are multipurpose because they can be used to make a variety of products.
- Machines are set up differently for different product batches.
- Each batch usually travels to several machines where various parts of the production process takes place.
- It can use less skilled labour than job production, but setting up the machinery may require more specialised skills.

4.3 Advantages/Positives

- The unit cost is reduced when batches are made.
- Multi-purpose machinery are used to produce a wide variety of products.
- People are trained in different skills and can be utilised in different aspects of the manufacturing process.
- Production is flexible as customers can place orders, such as size or style.
- Specialist machinery can increase productivity.
- Costs are not high, as large batches of similar products can be produced at one time.
- Companies can take advantage of bulk buying.
- Machinery is not as expensive as mass production and do not need such skilled operators.
- There is great flexibility as plans can be changed and adjusted with every batch.
- Machinery does not cause big delays in the production process.
- Quantities of batches can be changed easily, which reduces wastage

4.4 Disadvantages/Negatives

- Time is lost when batches are changed and machines need to be reset.
- High stock level of raw materials need to be kept.
- Money is tied up in stock so cash flow needs to be planned carefully.
- It requires a lot of different machinery, which can be costly.
- Machinery needs to be serviced and cleaned down the line, which can also add to production costs.
- The goods and services do not always meet exact specifications of the customers
- Final goods need to be stored, which can be costly.
- Some workers can be demotivated if they specialise in one task.
- Time delays in waiting for one batch to finish before the next one can get started.

5 Job production/Jobbing/Interrupted production

5.1 Definition job production

- A job production system is a production system that businesses use when they produce a once-off job for a specific customer.
- A production method according to which products are made once-off and exactly as the customers' specifications.
- The business waits for an order to come in from a customer before making the product.
- Example: A gate custom made for a customer, a birthday cake with particular name on it, ships/boats/designed jewellery/furniture etc.

5.2 Characteristics of job production.

- Job production is usually labour intensive.
- The variety of products is high.
- The product is usually unique.
- Workers receive different instructions for each order.
- Labour required is often specialised and skilled.
- Standardisation of products and the volumes of products are low
- This production system also uses a multi-purpose machinery that can be used to produce a variety of products.
- Workers need a wide range of skills to be able to cope with the customers' specifications and requirements.
- The cost of labour is greater than the cost of machinery in the production process.
- Similar machines are grouped together and they are not used all the time.

5.3 Advantages/Positives

- The production process is easy to control.
- Risk is low as sales are guaranteed
- No stock of finished goods is made to order
- A product can be designed specifically for one customer, this is appealing to customers who want customised products.
- Company can be innovative and change ideas and designs with very little costs involved.
- Very flexible, delays do not affect all the orders at the same time.
- Delays due to breakdowns can be overcome fairly quickly
- Every project is different so employees don't tend to get bored.
- Products made in job production are unique and often in demand.
- Company is able to charge higher prices for the products because they are customised.
- Set up costs are not as expensive and large machines are not needed.
- Quality is excellent as each product is made to own specifications.
- It is not necessary to wait for one product to be finished before starting the next one.
- Labour is highly skilled and quality of workmanship is high.
- A deposit is usually required to secure an order so money for initial costs is paid up front.
- There is greater flexibility regarding quantity to be produced/layout of the factory/equipment.
- The machinery used could be less expensive than those of mass production
- Changes in quantities demanded can be easily catered for.

5.4 Disadvantages/Negatives

- It is slow because the business is producing one product at a time
- Job production is expensive as it relies heavily on the skills of the employees
- A lot of planning and administrative work is involved
- Unbalanced workloads, some machines used more than others.
- There are few opportunities to automate the process
- Production costs are higher than the costs for mass production.
- Products take longer to produce and a large amount of investment capital is required.
- Employees need to be well skilled and require large salaries.
- Raw materials are costly as they cannot be bought in bulk.
- A large reserve of semi-finished goods must be kept, which increases stock piling costs.
- Tight control is needed to ensure the standard and quality is maintained.

6 The situation in which each production system is used

Production systems	Production method	Application
Uninterrupted production system	Mass production	• Can be used when producing a large number of similar products.
Interrupted production system	Batch production Job production (Jobbing)	• When a variety of products must be produced.

CHAPTER FOURTEEN

PRODUCTION FUNCTION: PRODUCTION PLANNING

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

PRODUCTION PLANNING

- Define production planning.
- Outline/Mention/Explain/Discuss aspects that must be considered during production planning e.g. planning, routing, scheduling and loading.
- Explain/Discuss the advantages of production planning.
- Explain the meaning of production control.
- Outline/Mention/Explain/Discuss aspects that must be considered during production control e.g. dispatching, following up, inspection and corrective action.
- Justify the reasons why businesses must manage safety in the workplace.
- Explain/Discuss the requirements for a safe environment e.g. safety policy, visible warning signs, first-aid kit, safe working environment etc.
- Explain/Discuss/Recommend precautionary measure that businesses should take when handling machinery.
- Explain the purpose of the Occupational Health and Safety Act.
- Recommend/Suggest ways in which businesses can comply with the Occupational Health and Safety Act.
- Explain the purpose of a workplace safety policy.
- Outline/Mention/Explain/Discuss aspects that must be included in the workplace safety policy.
- Evaluate a workplace safety policy and make recommendations for improvement

Terms and Definitions

TERM	DEFINITION
Output	The amount of something produced by a person, machine, or industry.
Inventory	The quantity of goods owned and stored by a business that is intended either for resale or as raw materials and components used in producing goods.
Quality checks	A procedure intended to ensure that a manufactured product adheres to a defined set of quality criteria.
Bottlenecks	It is a situation that stops a process or activity from progressing.
Regulatory processes	A rule of order having the force of law, prescribed by superior authority.
Hazards	Any agent that can cause harm or damage to humans, property or the environment.
CEO	Chief Executive Officer

PRODUCTION FUNCTION

1 PRODUCTION PLANNING

1.1 Definition of production planning

- Refers to setting goals for the production department and establishing policies/programmes and procedures to achieve these goals.
- It aims at decreasing cost and time and increasing output by organising the resources and workplace to maximise efficiency.
- Production planning involves everything from the individual roles of staff, ordering of stock, to the final delivery to the customer.
- Planning is done due to constant changes in the manufacturing process.
- Production planning must control the following aspects:
 - Actual production
 - Inventory/stock
 - Factory layout
 - Production costs

1.2 Aspects that must be considered during production planning

1.2.1 Planning

- Production planning of each aspect of the overall process.
- It includes the layout of a factory and the flow of materials through the process.
- The planning has to cover all aspects of the production process such as the factory layout based on the optimal flow of material.
- It includes decisions on the purchasing of the materials, machinery and equipment and staffing.
- Budget, machines and manpower are calculated and used to determine expected output.

1.2.2 Routing

- Involves planning the sequence in which the production operations will take place.
- It establishes the best and cheapest way to sequence the production process.
- Setting up of the actual route which the materials must follow in the process to save time and costs.
- Routing determines the following aspects:
 - Quality and type of raw materials
 - Manufacturing process and sequence
 - Specifications of the final product
 - Cost analysis

1.2.3 Loading

- Involves planning who will be responsible for each activity identified during the routing process.
- Involves allocating every person/machine to their task.
- Loading calculates the amount of time each machine will need to operate during a day.
- It also indicates which machines are not being used to their full capacity.
- It is linked to the output required to fulfil orders and prevent the overloading of employees and machines.

1.2.4 Scheduling

- Scheduling involves the timing of the production process.
- It priorities certain jobs and determine which jobs need to be completed before the next one can take place.
- Scheduling takes into consideration the routing and loading of both labour and machinery.
- Involves calculating the time required to perform each activity in the manufacturing process.
- Planning when each activity should start, and then calculating the time required to complete the whole process.
- Time periods that need to be worked out considering the preparations of raw material/delivery of raw materials/delivery of final products etc.
- Scheduling is affected by capacity and size of the business/availability of staff/machinery and materials.
- The more detailed the schedule the better resource it will be for controlling the process.

1.3 Advantages of production planning

- Planning allows an entrepreneur to ensure that every machine and worker is used to their full capacity and not left with nothing to do.
- The company can ensure that it has the correct amount of supplies and stock at a given time.
- This reduces wastage and unnecessary storage costs.
- Planning will prevent time being wasted and increase the number of final products.
- Planning process involves quality checks and ensures that the correct quality is reached in the shortened possible time.

2.1 The meaning of production control

- Controlling of each individual task and action in the production process and establishes the starting and finishing of each task.
- Production control ensures that production is undertaken according to the production plan.
- It includes dispatching, following up, inspection, and corrective action.

2.2 Aspects that must be considered during production control

2.2.1 Dispatching

- Involves issuing production orders to start production. It provides orders for:
 - Movement of materials, tools and equipment to the necessary locations
 - Beginning the process
 - Checking the time and costs involved in the process
 - Checking the flow of work according to the routing
 - Supervising the process.
- Dispatching is putting the production plan and schedule into action.
- It identifies the person who will do the work, supplies the specifications and materials list.

2.2.2 Following up or controlling

- Following up makes sure the scheduling and production systems are running according to plan.
- It deals with unplanned issues/problems and sorts out any misunderstandings in terms of job process requirements.
- Following-up on the progress of production helps to prevent bottlenecks and misunderstandings.

2.2.3 Inspection

- Inspection involves the checking of the quality of the process and the final product.
- It is done at regular intervals during the production process as well as at the end.
- Inspection methods include the random selection of products/viewing/sampling and testing the product.
- Legal and regulatory processes are also checked to ensure that the necessary standards are met.

2.2.4 Corrective action

- Corrective action involves any adjustments to the planning process.
- Staffing issues are also dealt with corrective action.

3 Safety management

3.1 Factory safety

- Safety precautions are essential in every workplace especially when dealing with chemicals/dangerous machinery/harmful substances.
- All business should draw up their own safety policy and enforce necessary control measures.

3.2 Reasons why businesses must manage safety in the workplace

- Workplace accidents can result in injuries and deaths.
- Publicity of workplace accidents will also impact negatively on an enterprise's image.
- Regular or serious workplace accidents may even cause investors to invest their money in another company.
- Potential employees may decide not to accept a job offer at an enterprise where many accidents have occurred.

3.3 Requirements for a safe environment

- All businesses should draw up their own safety policy and enforce necessary control measures.
- Safety warnings and signs should be visible.
- Every business should have an up-to-date first-aid kit in an easily accessible place.
- At least one employee trained in first-aid should be on site.
- The workplace should be free of hazardous substances that cause damage, disease or injury to employees or visitors.
- Employees should be informed of any dangers in the workplace.
- Information, instructions and training should be provided to all employees.
- All workers should be informed of the potential safety and health hazards.

3.4 Precautionary measure that businesses should take when handling machinery

- Familiarise employees with safety procedures.
- Develop a culture of safety in the workplace.
- All machinery and equipment must be correctly installed and safe to use.
- Workers must be properly trained on how to use machinery and must be informed about the risks when using the machinery.
- Regular safety checks must be carried out and machinery should be maintained and serviced regularly.
- Workers need to wear protective clothing/gear such as overalls/ hard hats/ safety helmets/masks/heavy-duty safety boots/welding goggles when working with machinery and equipment.
- Hard hats should be worn on construction sites at all times.

3.5 The purpose of the Occupational Health and Safety Act

- Requires every business to establish and maintain, a safe work environment that is without risk to the health of the workers.
- Review the efficiency of health and safety measures.
- Outlines the roles and responsibilities of employer, employees, manufacturers, designers, importers, suppliers and sellers.
- Clarifies the roles and duties of the health and safety representative and committee.
- Requires that the main dangers and potential incidents of the workplace be identified and eliminated.
- Examines the causes of incidents by any employee relating to the employee's health and safety at work.

- Expects employees to co-operate and follow the necessary instructions and report any unsafe situations.
- Makes presentations to the employer concerning general health and safety issues at the workplace.

3.5.1 Ways in which businesses can comply with the Occupational Health and Safety Act.

- Workers must be provided with protective gear to protect themselves against potential dangerous situations.
- First aid boxes must be readily available at the workplace and in the factory.
- Fire extinguishers must be readily available at the workplace and in the factory.
- Machinery must be maintained at regular intervals and repaired promptly.
- Implement the SAFE steps as follows:
 - S: spot the hazard
 - A: assess the risk
 - F: fix the problem
 - E: evaluate the results

3.5.2 Workplace safety policy

- Every business should establish its own workplace safety policy which stipulates conditions, precautions and procedures related to its business and equipment.
- Employees should be familiar with the policy and should adhere to the rules and regulations at all times.
- An employer can face penalties/prosecution and even criminal charges.
- The Act that governs workplace safety is the Occupational Health and Safety Act (85 of 1993) (OHSA)

The purpose of a workplace safety policy.

- Identify potential hazards and evaluate the risks involved
- Establishing precautionary measures to protect employees against injury or illness.
- Identifying procedures in a case of someone getting injured or an illness.
- Outlining the responsibilities of the employer.
- Outlining the responsibilities of the employee.
- Identifying the appropriate clothing and protective gear to be worn.
- The establishment of a health and safety representative and committee and their roles and responsibilities.
- Details of health and safety audits and inspections.

Aspects that must be included in the workplace safety policy.

- Description of the organization.
- The right of every employee to a safe and healthy environment
- The general responsibilities of employees
- Recognise the need to comply with minimum standards of the act.
- Recognise the priority and safety in relation to other organizational goals and Policies.
- Acknowledge the right of every employee to work in a safe and healthy environment.
- Stipulate that management is responsible for occupational health and safety programmes.
- The general responsibilities of all employees.
- Health and safety shall not be compromised.
- The policy date.
- Signatures of the CEO.
- Be visibly displayed for all workers to see.
- Review date of the policy.
- That unacceptable performance of health and safety duties will not be tolerated.
- Encourage cooperation with unions and workers to involve all employees in implementing the health and safety policy into practice.
- A commitment that health and safety will not be sacrificed to meet speedy delivery.

CHAPTER FIFTEEN

QUALITY CONTROL & PRODUCTION COSTS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Define quality control
- Explain Total Quality Management (TQM) as part of quality management system
- Outline/Mention quality control bodies e.g. SABS, ISO, quality circles etc
- Explaining the meaning of production costs
- Outline/Mention/Discuss/Explain the components of production costs e.g. primary and overhead costs.
- Give examples of primary and overhead costs
- Explain the meaning of total and fixed costs
- Calculate total, fixed and variable costs
- Calculate unit costs, selling price, profit and the break-even point
- Explain the meaning of the break-even point

Terms and Definitions

TERM	DEFINITION
Quality	Level of excellence or a standard that causes satisfaction for the customer.
TQM	An approach that requires all aspects of an organisation to focus on quality from production stage to final consumption.
ISO	Set of quality management system standards that provide guidance on how to do quality assurance.
SABS	South African Bureau of Standards promotes and maintains standards in South Africa.
Fixed costs	Costs that do not change as a result of the production output and that must be paid regardless of the amount of production.
Variables costs	Costs that changing as the number of outputs to be manufactured changes.
Total units	Number of units produced.
Total revenue	Money received from selling goods before costs are paid.
Selling price	The price that is paid by the consumer for a unit.
Profit	The amount of money made after deducting costs from revenue.
Break-even point	Fixed costs +contribution
A loss	It is when the costs of a business are higher than it's income
Calculate	Work out following a method

1 QUALITY CONTROL

1.1 Definition of quality control

- Refers to the process of ensuring that goods or services are made to consistently high standards.
- It is the inspecting of the final product to ensure that it meets the required standards.

1.2 Meaning of a quality management system

- A quality management system is a framework that a business uses to manage key processes.
- It enables business processes to meet the correct standards
- This system includes quality control and quality assurance.
- **Quality assurance** is the process carried out during and after the production process.
- **Quality control** is the inspecting of the final product to ensure that it meets the required standards.
- Businesses implements a Total Quality Management system as part of a quality management system.

1.3 Total Quality Management (TQM) as part of quality management system

- Total Quality Management involves every part of the business, and quality is everyone's responsibility, including every department and employee.
- The main aim of TQM is to improve the quality of products and services in order to satisfy the needs of customers beyond their expectations.
- Continuous improvement is the foundation of TQM. This means that all techniques, systems and machinery used must be subjected to continuous improvement.
- It is the responsibility of each employee to take care of his/her own quality.
- Machines and equipment are checked regularly.
- All input including raw materials are checked thoroughly and discussions are held on how to improve quality.
- Management ensures that each employee is responsible for the quality of his/her work/actions.

1.4 Quality control bodies

1.4.1 South African Bureau of Standards (SABS)

- The SABS is an organisation established by the government to ensure that South African businesses meet a range of standards, with regard to health, safety and the environment.
- The primary responsibility of the SABS is to develop and publish standards for products and services.
- The SABS performs the following functions:
 - Sets and publishes national standards
 - Provides training regarding all aspects of standardisation
 - Testing products
 - Provides information on international and national standards
 - Tests and certifies products and services against the standards
 - Monitors and enforces legal regulations
 - Promotes design excellence
- Business products must undergo thorough testing to ensure that they meet the necessary standards then they will earn an SABS mark.
- The SABS mark gives the assurance that the product complies with safety requirements.

1.4.2 International Organisation for Standardisation (ISO)

- It sets out procedures a business should follow to ensure that its final product meet its own promises and its customers' expectations and that quality improves over time.
- ISO9000 is set of internationally recognised standards set for different industries.
- ISO standards are used in many countries all over the world.
- Industries are able to measure their own quality management system against these international standards.
- Accreditation with ISO acts as a signal to customers that the business takes its quality commitments seriously and continually strives to improve its operations.

1.4.3 Quality cycles

- These are groups of employees who work in different departments e.g. production, marketing, purchasing and financial, but who deal directly or indirectly with the same product or service.
- They meet regularly to discuss how quality, efficiency and productivity could be improved.
- They analyse problems with the production process and brainstorm solutions.
- Employees are often best placed to know how to improve quality.
- Typical topics discussed by quality circles include improving safety, improving product design and manufacturing processes.
- The ideal size of a quality circle is eight to ten members.
- Quality circles form part of TQM.

2.1 The meaning of production costs

- This refers to costs incurred by an enterprise in producing a product.
- It consists of primary (direct) and overhead costs.

2.2 Components of production costs

There are two components of production cost namely primary and secondary costs

2.2.1 Primary costs

- This consists of direct raw material and labour costs that are used in the manufacturing of a product.
- Direct raw material costs are costs of raw materials actually used in the production of the product e.g. raw material and trading stock.
- Direct labour costs are the costs of labour used to manufacture the product e.g. Wages and salaries

2.2.2 Overhead costs

- This consists of variable overhead and fixed costs.
- Variable overhead costs are costs that change as the number of units produced change.

2.2.3 The meaning of fixed, variable and total costs

Meaning of Fixed costs (FC)

- These are production costs that must be paid no matter how many units are manufactured.
- Fixed costs are costs that do not change with production.
- They do not vary according to the number of units produced.
- Example of fixed costs:
 - Rent
 - Insurance
 - Vehicle instalments
 - Indirect labour cost

Meaning of variable costs (VC)

- Variable costs are determined by the number of units produced.
- They differ according to how many goods/services are produced in a period of time.
- The more goods and services produced, the higher the variable costs.
- The less goods and services produced, the lower the variable costs.
- It is easier for businesses to plan and budget for variable costs as these costs are more directly related to sales income received.
- There is less risk involved in variable costs
- Examples of variable costs:
 - Raw materials
 - Direct material per product e.g. ink and binding for books
 - Wages of employees directly involved in the manufacturing process

Meaning of Total Costs (TC)

- Include all of the money spent by the business to produce goods and services.
- The total costs of production equal the fixed costs plus the variable costs.

2.2.4 Calculation of fixed, variable and total costs

Calculating the fixed costs

EXAMPLES OF FIXED COSTS	AMOUNT
Rent	R1500
Equipment	R 800
Vehicle insurance	R1600
Total for fixed cost	R3900

Calculating the variable costs

EXAMPLES OF VARIABLE COSTS	AMOUNT
Stock	R3000
Water and electricity	R2000
Wages	R4000
Total for variable cost	R9000

Calculating the total cost

Total costs include fixed costs plus variable costs

FIXED COSTS + VARIABLE COSTS	
R3900	R9000
Total costs = R12 900	

2.2.5 Meaning and calculation of unit costs, selling price and profit

(a) Meaning of unit cost

- Unit cost is the amount it costs to make one unit/product
- To work this out, the total fixed cost + variable cost must be divided by the number of units/products produced.

Calculating the unit cost

$$\frac{\text{Total cost (TC)}}{\text{Number of units (Q)}}$$

$$\frac{\text{Total costs: 12 900}}{\text{Number of units produced: 100}}$$

Unit cost=R129

(b) Meaning of selling price

- A business needs to work out how much money it has spent/cost and how much it has received/income
- The selling price is the price that customers pay for goods and services.
- The amount of money that a business receives from the sale of products or price is known as revenue.
- Total revenue/TR is the amount of income before any deductions and expenses are taken off.
- Total revenue/TR is calculated by multiplying the selling price by the number of units sold.

Calculating a selling price

Total revenue (TR) = Selling price (SP) x Output units (Q)

Example:

Unit price: 129

Selling price per unit: 160

Number of units sold: 100

Total revenue (TR) = Selling price (SP) x Output units (Q)
= 160 x 100

Total revenue = R16 000

(c) Meaning of profit

- The amount left after expenses and costs are removed is known as profit
- Businesses make profit when their total revenue is higher than their total cost

Calculating profit

Profit = Total revenue – Total costs

Example:

Total revenue = R16 000

Total costs = R12 900

Profit = Total revenue – Total costs
= 16 000 – 12 900

Profit = R3100

(d) The meaning of the break-even point

- A breakeven point is a point where a business makes neither a profit nor a loss.
- The total revenue is the same as the total costs.
- A business needs to sell more units than the break-even point to make a profit
- They need sell enough units to cover the fixed costs to break even. This known as the contribution method.

Calculating the break-even point

- Contribution margin (CR) = Selling price (SP) – Unit variable costs(UVC)
- Break-even point = Fixed costs FC / Contribution margin (CR)

CHAPTER SIXTEEN

PROFESSIONALISM AND ETHICS

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Define ethical and professional behaviour
- Differentiate/Distinguish/Tabulate the differences between professionalism and ethics
- Outline/Mention/Explain the principles of professionalism and ethics
- Briefly explain the following theories of ethics that are applicable to the workplace:
 - Consequential theory
 - The common good approach
 - The rights approach
- Differentiate/Distinguish between good and bad decisions and give practical example of each.
- Suggest/Recommend ways in which professional, responsible, ethical and effective business practice should be conducted, e.g. payment of fair wages, providing quality goods and services, not starting a business venture at someone else's expense, etc.
- Give examples of ethical business practices
- Evaluate a code of ethics for any business and make recommendations for improvements.
- Discuss different perspectives on ethics

Terms and Definitions

TERM	DEFINITION
Moral compass	Used in reference to a person's ability to judge what is right and wrong and act accordingly.
Integrity	The quality of being honest and having strong moral principle.
Values	Being able to understand what is important when it comes to what is wrong and right, based on what we believe in.
Confidentiality	The state of keeping or being kept secret or private.
Transparency	Operating in a way that creates openness between managers and employees.
Impartial	Equal treatment of all rivals or disputants; fairness
Consequence	The effect, result or outcome of something occurring earlier.
Discrimination	The unjust or prejudicial treatment of different categories of people, especially on the grounds of race, age, or sex.
Governance	It is the rules and processes by which a company is operated and controlled

1. Professionalism and ethics

1.1 Definition of ethical and professional behaviour

1.1.1 Ethics

- Moral principles that govern the behaviour of a person or a group.
- Ethics defines how individuals/professionals and businesses choose to interact with one another.
- It involves making sound business decisions that do not have a negative effect on other people.
- Focusses on developing moral compass that can be used in decision making.
- These decisions entail identifying ways of achieving the objectives of the business, while also doing what is right and good for other people.

1.1.2 Professionalism

- A way in which people conduct themselves in the workplace, maintaining high standards and showing respect to all.
- The competence or skill expected of a professional person.
- It involves taking pride in your actions and never compromising standards.
- It is about being focussed on what you do and being committed to a certain standard performance.

1.2 The differences between professionalism and ethics

PROFESSIONALISM	ETHICS
• Set of standards of expected behaviour.	• Conforms to a set of values that is morally acceptable.
• Forms part of a code of conduct to guide employees to act professionally.	• Applying a code of conduct set by a profession or business.
• Focuses on developing a moral compass to use in decision making.	• Focuses on upholding the reputation of a business/profession.
• Includes guidelines on employees' appearance/communication/attitude/responsibility etc.	• Involves following the principles of right or wrong in business activities/practices/dealings.
• Used for the good of the employees/individuals.	• Acceptable to society/community
• Apply a code of conduct set by the profession or business.	• Forms part of the employees' code of conduct.

1.3 The principles of professionalism and ethics

1.3.1 Principles of professionalism

- Employees should respect themselves and the rights of others.
- Responding quickly to the request of customers
- Caring about the quality of work before submission.
- Communicate with clarity and honesty.
- Meeting deadlines by completing assignments before the due date.
- Using resources responsibly with due regard for the environment.
- Respecting the image of the business/your profession, e.g. adhere to the dress code of the business/profession.
- Respecting diversity and differences and demonstrate cultural sensitivity.
- Acting with integrity/honesty/reliability, e.g. keep to working hours even if no other workers are around/not using the business resources for personal gain.
- Being committed to quality and apply skills and knowledge to the benefit of the business/society at large.

- Adhering to confidentiality measures by not disclosing sensitive information about customers/business.
- Remaining objective, act fairly and justly to all without being biased or showing favouritism.
- Continually improve/develop skills and knowledge, e.g. attending refresher courses and seminars.
- Sharing knowledge by investing time and expertise with junior staff members, e.g. uplifting/empowering others.
- Offering and accept appropriate incentives, goods and services in business transaction.

1.3.2 Principles of ethics

- Being objective and impartial.
- Transparency and full disclosure.
- Confidentiality
- Avoiding conflict of interest.
- Being committed and responsible.
- Initiating CSI projects for communities/Social responsibility
- Looking after the environment
- Abiding by international laws

1.4 Theories of ethics

1.4.1 The rights approach

- Focuses on individual rights where people should be treated with respect and dignity.
- No person may be maltreated and the business will not impose its mission or products on people.

1.4.2 Consequential approach

- Business must promote or generate the greater value for society, while harming as few as possible.
- Consequentialists believe that an act should be judged based on the effect it has on others/if the effect is good, the action can be seen as ethical.

1.4.3 The common good approach

- Focuses on ensuring that the business' values and ethical principles are in line with society in which the business operates.
- It recognises that ethics and values vary from country to country and from area to area.

1.5 Good and bad decisions

1.5.1 The meaning of good decisions

- Good decisions are those that are ethically correct and will also benefit, without harming others.
- A good decision enables businesses can make a lot of profit

1.5.2 The meaning of bad decisions

- Bad decisions are not always ethical, they can be the results of the wrong information.
- A decision that brings in lots of profit, but based on unethical business practices, is bad.
- In the long run, no business can survive if its policies and way of doing things are unethical.

1.5.3 Examples of the differences between good and bad decisions

GOOD DECISIONS	BAD DECISIONS
Maintaining high levels of integrity	Not considering values
Honouring professional business practices	Insufficient or erroneous information
Respecting diversity	Selfish motives
Not starting a business venture at the expense of others.	Violating customer's privacy
Payment of fair wages	Damaging the environment
Not discriminating against employees	Price fixing
Regular payment of tax	Tax evasion
Reducing environmental pollution	Cloning animals or people
Importing goods that have been produced by factories with fair labour practices.	Bribery

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

- Businesses should treat all employees equally.
- Plan properly and put preventative measures in place.
- Pay fair wages/salaries which are in line with the minimum requirements of the BCEA. / Remunerate employees for working overtime/during public holidays.
- Engage in environmental awareness programmes. /Refrain from polluting the environment, e.g. by legally disposing of toxic waste.
- Refrain from starting a venture using other businesses' ideas that are protected by law.
- Business decisions and actions must be clear/transparent to all stakeholders.
- Businesses should be accountable /responsible for their decisions and actions/patent rights.
- Hiring honest/trustworthy accountants/financial officers with good credentials.
- Regular/Timeous payment of taxes.
- Draw up a code of ethics/conduct.
- Ongoing development and training for all employees.
- Performance management systems. /Appraisals should be in place.
- Adequate internal controls/monitoring/evaluation.

1.6.1 Meaning of code of ethics

- A written set of guidelines issued by an organisation to its workers and management to help them conduct their actions in accordance with its primary values and ethical standards.
- Outlines the mission and values of the business or organisation.
- Defines the values by which a business will function and provides a guideline for employees when making decisions.

1.6.2 Requirements for a good code of ethics

- Regular identification of ethical risk areas
- Development of compliance policies, procedures and systems
- Easy accessibility, confidentiality and non-discriminatory
- Alignment with the disciplinary code
- Integrating the integrity assessment with selection and promotion
- Induction of new employees
- Training ethical principles, standards and decision-making
- An internal audit that monitors compliance with ethical principles and standards.

1.6.3 Implementing a code of ethics

- Once a code of ethics has been compiled, everyone in the business must adhere to the code.
- Employees must understand that a breach of the code is punishable.
- The business should do the following for correct implementation of a code of ethics:
 - Employ right people
 - Train employees on ethical principles
 - Set an example of a good ethical behaviour
 - Involve employees in drafting the code of ethics.

1.6.4 Different perspectives on ethics

- There are certain universal ethical principles such as human rights but they differ according to culture/religion etc.
- There is no absolute right or wrong when it comes to ethics as societies decide on acceptable behaviours.
- Different cultures have different rules of conduct.
- Some people believe cloning animals or people is interfering with nature, while others believe that cloning indicates scientific progress and medical hope
- Some believe that tax evasion is wrong, while others regard tax evasion to be creative bookkeeping.

TERM THREE

CHAPTER 17

TRANSFORMING A BUSINESS PLAN INTO AN ACTION PLAN

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Discuss/Explain the purpose of a business plan (Recap).
- Explain the meaning of an action plan.
- Discuss/Explain/Describe the importance of an action plan.
- Outline/Mention the stages of an action plan/Steps to follow when drawing up an action plan.
- Outline/Explain the project planning steps.
- Define the following planning tools:
 - Gantt charts or Work Breakdown Structure (WBS)
 - Timelines
 - Project planning
- Discuss/Explain the importance of timelines and Gantt charts/WBS.
- Draw up a Gantt charts using the information given in scenarios/case studies.
- Use the grade 10 business plan and transform it into an action plan.

TERMS AND DEFINITIONS

Terms	Definitions
Action plan	Document stating what must be done, who will do it and by when it will be done
Work breakdown structure	Organises the business plan into different tasks and levels and identifies what needs to be done
Timelines	A planning tool that indicates dates and sequence
Gantt chart	A planning tool that indicates dates, duration and sequence
Termina elements	Smaller tasks of the project that form the bigger task of the project
Duration	The time it takes to do something
Action step chart	A task routine that identifies what, when, who and the expected outcome of the task.
Priorities	Puts things into order of importance
Corrective action	A deliberate action to fix something
Milestone	The end point in an activity

1 Definition of a business plan (Recap)

- It is a written document which gives a comprehensive overview of a proposed business.
- A business plan explains the objectives of a business/what the business is all about and how it will be financed/resourced.

2 The purpose of a business plan

- Offers direction of a proposed business.
- A written document which gives a comprehensive overview of a proposed business.
- Explain the business objectives, how it will operate, how the finances, resources will be handled and what the business aims to achieve.
- Used to check the performance.
- A tool used to sell or market the business.
- To identify possible strengths, weaknesses, opportunities and threats.
- Used to convince other people of the profitability of the business, such as applying for finance at a bank.

3 The meaning of an action plan

- An action plan is a record of activities showing how those activities will be organised to achieve the goals set out in the business plan.
- Is a planning and a monitoring tool that specifies what tasks must be done by whom, when and with what resources in order to reach specific goals.
- Is a process that will help to focus ideas and to decide on the steps to achieve a particular goal.

4 The importance of an action plan

- It enables projects to be achieved within the specified time.
- It helps the person responsible for achieving certain goals to be organised.
- It is a control measure against which standards and performance can be measured.
- It prioritises activities according to importance.
- It turns plans into actions.
- Identify problems that could occur.
- Acts as a monitoring tool that makes it possible to check the progress.
- Enables businesses to transfer their plans into actions.
- Enables businesses to think logically and identify gaps in the plan.
- Serves as a monitoring tool to check its progress.
- It provides an opportunity for reflection of what has happened before and what actions have not helped.
- Can bring together individuals/experts that are knowledgeable in the area of work.
- Clarifies the objective and provides the opportunity to identify areas that need change.
- Builds consensus as everyone involved can contribute their ideas.
- Creates ownership/accountability by creating a sense of individual and collective ownership for the action plan.
- Clarifies timescales that need to be done in order to achieve a particular objective.
- It identifies measures of success by providing a way of measuring progress towards that goal.

5 Steps to follow when drawing up an action plan/Stages of an action Plan

- The summary of the vision, mission, long term and short-term goals must be defined.
- Define the steps you would take to get there
- Start with what must be done first/prioritise
- Identify the end point for each step
- Arrange the steps in logical order
- Think about any problems that may happen
- Review progress regular
- Identify indicators to confirm progress

6 Project planning

6.1 The meaning of project planning

- Project planning is a tool that can be used to turn an idea into an action plan.
- It is a detailed description of all activities that need to be completed to execute a project successfully.
- The start-up of a business can be viewed as a project which must be planned.
- Project managers are usually in charge of developing and monitoring the implementation of projects
- Project management skills are the use of knowledge, skills and tools to plan and implement activities to meet the goals for every project

6.2 Project planning steps

- Define the scope of the plan to be done e.g. what is the purpose, first and last activities?
- Identify project supporters.
- Break the project down into activities.
- Set time frames and determine how long each activity takes.
- Set milestones targets e.g. what are main completion point?
- Determine accountabilities/person responsible for the decision made.
- Calculate the financial, human/technical resources that will be needed
- Plot the activity schedule into a Gantt chart
- Execute the project plan.
- Monitor progress
- Communicate and review project progress.
- Keep records of all activities.

7 Planning tools

7.1 Timelines/Schedule

- A timeline is a representation of all the tasks that must be completed and when these tasks can be completed.
- Timelines help team members to know what milestones need to be achieved and by when.
- The entries on the timeline need to be accurate and the information needs to be well organised.
- Timelines often involve making projections

Importance of timelines

- They help the planners to project dates in advance.
- Assists in determining the sequence/order in which activities tasks must be completed.
- Keeps information in the order that it has to be in.
- Assists project management in meeting their targets and exceeding client expectations.
- Project managers tools to get their jobs done, many of which are specific to a single company or product

Example of timelines

- A timeline is also known as a schedule for example, when implementing a business plan, the entrepreneur may make use of a timetable for these activities:

ACTIVITY	DATES
Registering the business	01-04 September
Finding premises	07-18 September
Buying/leasing equipment	21-25 September
Hiring suitably qualified staff	18-30 September
Buying and receiving stock	01-09 October
Starting the business	12-October

Activity	SEPTEMBER				OCTOBER	
Register business	xxxxxx					
Find premises		xxxxxx	xxxxxx			
Buying/leasing equipment				xxxxxx		
Hiring suitably qualified staff			xxxxxx	xxxxxx		
Buying and receiving stock					xxxxxx	xxx
Starting the business						x

7.2 Work Breakdown Structure (WBS)

- A Work Breakdown Structure is used to schedule the timelines for a project in order to decide what tasks need to happen, when and in what order.
- It is the first step in dividing the business plan into smaller project stages.
- It organises the plan into manageable stages that can be carried out individually.
- It also organises the tasks into a logical sequence
- It can also be used to develop a Gantt Chart.
- It allocates responsibilities to staff members

Work Breakdown Structure (WBS) steps

- Identify one key activity
- Sub-divide the task into secondary tasks
- Break down each secondary task into more details
- Check for logic, sequence and details

7.3 Gantt charts

- It is a bar chart that illustrates a project schedule.
- It shows the start and finish dates of the terminal elements and a summary element of a project.
- These elements consist of the WBS of the project
- It is an easy way to view projects as it shows a series of dates across the top of the page with solid bars below the dates.
- The bars show the duration of each task.
- Tasks names are written in the column on the left/vertical axis and contains the name of the person/team responsible for completing the task.
- They have different lengths to represent the order, timing and time span for each task.

Constructing a Gantt chart

- Write down all the activities that must be carried out to complete a project
- Decide how much time you will need for each activity
- Determine which activities need to be completed before another activity can be started and which activities can be carried out simultaneously.
- Draw up a table with a row for each activity and columns in days/weeks. These columns indicate the timeline.
- Write each activity in order down the rows, in the left-hand column

Example of a Gantt charts

Study the action plan below of Malefane Wedding Planner Associates for Musa's wedding.

Task to be done	Person responsible	Estimated time required for task	Date of completion
Wedding venues inspection	Sammy	3 weeks	Last week of April to the second week of May
Quotations	Mr Hlatshwayo	3 weeks	End of week 2 in April
Meeting with Musa for a theme	Ms Cindy Cooper	1 weeks	First week of April
Buying of decoration material and utensils	Lennox	1 week	End of week 1 in May
Sourcing of a caterer	Edith	2 weeks	End of week 3 in April
Wedding cake baking and preparation	Yolanda	1 week	End of week 4 in April
Designing of invitation cards	Sanele and Rashid	3 weeks	First three weeks of May

Task	Person responsible	Duration	APRIL				MAY		
			W1	W2	W3	W4	W1	W2	W3
Wedding venues inspection.	Sammy	3 weeks				xxx	xxx	xxx	
Quotations	Hlatshwayo	2 weeks	xxx	xxx					
Meeting with Musa for a theme	Cindy Cooper	1 week	xxx						
Buying of decoration material and utensils	Lennox	1 week					xxx		
Sourcing of a caterer	Edith	2 weeks		xxx	xxx				
Wedding cake baking and preparation	Yolanda	1 week				xxx			
Designing of invitation cards	Sanele & Rashid	3 weeks					xxx	xxx	xxx

Importance of Gantt charts

- Easy to prepare and understand.
- Events are shown in a chronological order
- The time needed for an activity is shown visually
- Managers and team members can see which activities run concurrently.
- Team members can see who is responsible for each activity.
- They show progress on an activity and enable managers to monitor progress.
- Interrelated tasks can be used at a glance.

CHAPTER 18

STARTING A BUSINESS VENTURE ON AN ACTION PLAN

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Outline/Mention/Explain/Discuss aspects that must be considered when initiating a business e.g.:
 - Strategy
 - Operations
 - Productivity
 - Size of a business etc.
- Outline/Mention/Explain/Discuss factors that must be considered before start-up e.g.:
 - Culture of the organisation
 - Environmental changes
 - Customer services
 - Business growth
 - Cost saving etc.
- Analyse the above-mentioned factors from scenarios/case studies and make recommendations for improvement.
- Explain/Discuss reasons why businesses need funding.
- Outline/Mention/Explain sources of funding.
- Explain/Discuss/Describe factors that influence the choice of funding e.g. nature of finance, amount of capital needed, risk, cost of finance etc.

TERMS AND DEFINITIONS

TERMS	DEFINITIONS
Strategy	Plans created by the entrepreneur that is spelt out in the business plan and enforced in the action plan
Collateral	The asset that is pledged to the bank in case of a default in the repayment of a loan.
Interest	Money paid as a percentage for the use of borrowed money.
Mortgaged bond	A debt instrument issued for a period of more than one year with the purpose of raising capital from borrowing.
Incentives	Cash or tax relief to encourage investment in economic sectors. It could also be a payment to workers to encourage productivity.
Venture capitalists	Financing is given for an ownership share in the business at its start-up.
Equity Capital	The total amount of money and assets invested in a business by the owner that comes from own sources.
Grants	Money given by government or an NGO for a specific purpose e.g funding small businesses.
Bank overdraft	A customer withdraws more than the money that is available in the bank account.
Trade credit	Time, usually between one and three months which a business has before it has to settle the debt.
Angel funding	These are wealthy business people who want to invest in promising small business in return for a profit share in the business.
Micro lenders	Businesses that offer small loans to people at high interest rates without collateral.

1 Aspects that must be considered when initiating a business

1.1 Strategy

- A strategy is a plan of action that must be carried out by an entrepreneur
- An action plan outlines the vision, mission, goals and objectives.
- The action plan must be used to develop the systems and processes for the business

1.2 Operations

- The business plan, action plan identifies the operational plan, timelines and key deliverables
- Operations need to be implemented, staff employed and trained.
- Resources must be acquired and managed continuously
- Constant monitoring & evaluation need to be done to ensure that resources are used effectively.

1.3 Productivity

- The action plan includes budget and financial planning
- Budgets need to be assessed and amended
- Costs need to be decreased and output increased
- To ensure productivity - costs need to be decreased & output increased
- Improvements need to be implemented constantly to improve profits

1.4 Size of the business

- The success of a business depends on its management and staff.
- The bigger the businesses the more difficult to manage
- It is difficult to keep control of the quality, work and productivity levels of each of the employees

1.5 Culture, training, and quality of staff

- It is essential to establish an organisational culture from the beginning so that staff are familiar with what is acceptable.
- Staff need appropriate training in order to achieve the desired outcomes and deliver the best quality.
- Managers should ensure that all new staff know the business dress code

1.6 Risk and change

- All businesses need to take risk and amend the original action plan several times.
- The introduction of new technology or new machine may influence a budget and it may be necessary for the business plan to be adapted
- Management and leadership teams must be flexible to adapt to changes in the market and/or macro environment.

1.7 Customer service

- A successful business gives customers what they want.
- Businesses need to change their market plan/adjust their products and prices to ensure sales increase.
- They also need to establish a good relationship with their customers.

1.8 Market research

- Businesses should conduct ongoing market research to identify profitable markets for their product.
- Many businesses benefit from conducting market research in local/familiar markets.

1.9 Business cycles

- Businesses obtain profit and experience losses.
- Changes in market & macro environment can either have a positive or negative impact on business operations.
- Businesses should constantly make adjustments to reduce costs where possible.
- Reducing cost increases profitability.

2 Factors that must be considered before start-up

2.1 Culture of the organisation

- Establish an organisational culture so that the staff is familiar with what is acceptable.
- Ensure that a code of conduct is in place and enforce it from the start
- The staff must know the dress code and the code of conduct of the business from the start.
- Provided ongoing training to ensure that the staff remain skilled and able.

2.2 Environmental changes

- Continue to network and research to avoid changes in the business environment which may upset the business operations.
- Consider the risk and success factors
- Plan for risks and minimise the impact

2.3 Customer service

- Make an effort to satisfy the needs of customers.
- Change the action plan accordingly to accommodate the needs of customers
- Establish a good relationship with customers.

2.4 Business Growth

- Managed and backed up growth by using a solid strategy.
- The success of a business is often dependent on its management and staff.
- Devise a suitable strategy to manage and control a larger group of employees.
- Keep control of the quality of each employee.

2.5 Cost saving

- Cut cost by controlling unnecessary expenditures

2.6 Risk and change

- Management and leadership teams must be flexible to adapt to changes in the market.
- The original action plan may need to be changed and amended several times.
- The introduction of new technology may influence a budget.

2.7 Other factors that must be considered before starting a business.

- Planning and minimising the environmental impact on the business.
- Action plan to satisfy the needs of customers.
- The sources of raw materials/suppliers.
- The sources of funding that the business would use.
- The forms of ownership that will be used by the business.
- The registration of the business.
- The location/business premises to be used.

3 Acquiring funding

3.1 Reasons why businesses need funding.

Businesses require funding to:

- Cover the start-up costs including premises/machinery/raw materials etc.
- Run the business and have enough money to pay employees/suppliers of raw material etc.
- Pay for cost of input such as wages, telephone other expenses
- Expand the business as the orders/sales increase and bigger premises need to be established.

3.2 Sources of funding

3.2.1 Equity Capital

- Equity capital is the total amount of money and assets invested in a business by the owner that comes from own sources
- Capital that is contributed by the owner is referred to as the owner's interest.
- Owner's equity increases when the owner puts in additional funds to expand the business.
- The benefits of putting own capital into the business is that it encourages a commitment from the owner.

3.2.2 Issuing of shares

- New companies can issue shares to obtain capital.
- Shareholders receive a share certificate as proof of ownership
- The Memorandum of Incorporation and prospectus list the details of the shares that are offered for sale
- Ordinary shares are the most type of share offered by companies to shareholders
- All shareholders receive a portion of the profits called a dividend.

3.2.3 Debt Capital

- Many businesses need to borrow funds.
- The business plan will indicate how much a debt capital is crucial for business funding.

The following sources of finance are available to the entrepreneur:

Bank loan

- The business can borrow money from the bank.
- The amount will be specified for a set period.
- Interest is payable on the loan.
- The interest can be fixed for the time of the loan or variable in line with the current interest rate.

Trade Credit

- This is the time which a business has before it has to settle a debt.
- Suppliers usually allow a small business a period between buying materials and paying for them.

Bank overdraft

- This is when a bank allows a business to draw more than what is deposited in the bank account.
- The bank decides on the maximum amount to be drawn known as the overdraft limit
- The business pays interest on the amount of money they withdraw and for the period they have overdrawn.

3.2.3 Leasing and hire purchase

- Businesses can lease certain assets from suppliers.
- Assets such as machinery/vehicles/computer systems can be leased.
- A fixed amount of money is paid monthly for the use of the asset
- The lease agreement can be renewed when the asset is returned/replaces.

3.2.4 Grants

- Grants are funds that are received from government departments/local development agencies and other organisations that support small business developments.
- The business can qualify for government support to help get started.
- The main advantage of grants is that it is cheap financing.

3.2.5 Venture capital

- Financing is given in exchange for a share in the business at its start up.
- Some venture capitalists also request a position in management or on the board.

3.2.6 Angel funding

- These are often wealthy entrepreneurs who offer financing in exchange for a share in the business.
- This carries a high risk for the investor.

4 Factors that influence the choice of funding

4.1 Nature of finance

- This depends the owners if he/she wants to use own or borrowed capital as well as short- or long-term loan.

4.2 Amount of capital needed

- Business owners usually use their own capital if a small amount is needed.
- The larger the amount of capital that is needed the owners will have to look at borrowed capital as well

4.3 Risk

- Providers of own capital are usually willing to accept greater risks than providers of borrowed capital
- Interest on loan is legally compulsory and may lead to the liquidation of a business in bad economic circumstances

4.4 Cost of finance

- Businesses will generally choose the funding with lower costs/interest
- The income earned on borrowed capital must exceed its cost otherwise it will be to the disadvantages of the holders of own capital.
- Borrowed capital may be cheaper because the holders of own capital require a higher income owing to the higher risk

4.5 Period of financing

- If needed for a long period might rather use own capital because borrowed would be too expensive over a long period.

4.6 Availability

- If more own capital is not available, the business might be forced to use borrowed or other way around.

4.7 Tax considerations

- Interest on borrowed capital is tax deductible. Dividends on own capital are not deductible.

CHAPTER 19

ENTREPRENEURIAL QUALITIES & SUCCESS FACTORS

POST COVID-19 REVISED

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Outline/Explain the qualities of an entrepreneur.
- Identify the qualities of an entrepreneur from given scenarios/case studies/statements/etc.
- Assess a business against these qualities
- Identify/Outline/Mention key success factors etc. sustainability/profitability/customer base etc.
- Recommend/Suggest areas for improvement from given scenarios/case studies/statements.
- Suggest strategies that businesses can use to ensure that they remain profitable and sustainable e.g.
 - Thorough planning
 - Sound managing finances
 - Effective management of scarce resources and employees
 - Maintaining a solid customer base
 - Behaving ethically and
 - Being social-responsible

TERMS AND DEFINITIONS

Term	Definition
Business skills	Includes skills such as marketing, financing, purchasing and organizational skills.
Perseverance	When an entrepreneur does not give up despite challenges and problems.
Sustainability	Ability of the business to continue without doing damage to the environment and the community in which it operates.
Profitability	Financial gain
Customer base	The number of customers in the database that buy a product or service.
Passion	Believing something very strongly and showing enthusiasm to achieve the best outcome.
Opportunity	Gaps in the market where an entrepreneur can make money.
Confidence	Entrepreneurs believing in themselves and believe that they can achieve their goals.
Taking risks	Risks are classified as unforeseen events that can impact negatively on events
Creativity	Coming up with something new or doing things in a new way.

1 The meaning of an entrepreneur

- The word “entrepreneur” refers to a person who demonstrate the attitudes, behaviours, knowledge and skills needed to start and make a success of a business venture.

2 Qualities of an entrepreneur

Risk taking/Willingness to take risks and to make difficult decisions

- Risks are classified as unforeseen events that can impact negatively on a decision
- Successful entrepreneurs are willing to take risks by investing all resources in a new business.
- The primary function of an entrepreneur is to accept a risk on behalf of others and be rewarded in return.
- Every business needs to be innovative and take risks to survive.
- Innovative and risk taking are essential to what businesses are and what they do.

Creativity and innovation

- An entrepreneur must be able to come up with something new or do things differently
- He/she must be able to generate new ideas to solve business problems
- Entrepreneurs should also be able to use same products to satisfy different needs.

Confidence and adaptability

- Successful entrepreneurs believe in their own abilities and that they will achieve their goals.
- They are positive and focus on things that could go right instead of focusing on things that could go wrong.
- They have a healthy opinion of themselves and a strong/assertive personality.
- They are focused and determined to achieve their goals
- Successful entrepreneurs are adaptable as they are able to change course and try another way of doing it.

Passion and energy

- Entrepreneurs should show enthusiasm to achieve the best solution
- Passion can be illustrated when an entrepreneur finds it difficult to simply walk away from failure/setbacks.
- Starting and running a business requires considerable energy and the ability to focus on business objectives.
- High energy levels and good health are essential.

Product and customer focus

- Entrepreneurs develop products and render services with customers in mind.
- They make the lives of customers easier and they find this rewarding.

Perseverance

- Successful entrepreneurs do not give up despite challenges and problems
- Most successful entrepreneurs face obstacles and only become successful after failing several times.
- They have a positive attitude towards failure and believe that difficulties are merely opportunities
- They put in long hours and continuous efforts to get a business operating successfully, even when a particular day may make him/her tired and discouraged.
- They are able to change difficulties into challenges and have the ability to be resilient

Recognition of opportunities

- Successful entrepreneurs can identify gaps in the market and make money.
- They are able to identify viable opportunities that are not always easy to spot.
- They have the ability to see an opportunity and to change it into a profitable business

Responsibility

- Successful entrepreneurs are not afraid to take responsibility for their decision and actions in their business.
- They accept positive and negative outcomes

Good management & organisation

- Successful entrepreneurs have good management and organisation skills including good administration skills and seeing the bigger picture.
- They are able to maintain control and make final decisions regarding activities that must take place.

Honesty and ethics

- Honesty in a business builds trust among fellow workers/customers/stakeholders.
- Business ethics is an important part of controlling a business
- Successful entrepreneurs have a moral obligation to look after the interests of investors and other stakeholders.

Vision and communication skills

- They have a clear vision and able to achieve long term goals.
- They have good communication skills that are needed to communicate their business vision to their workers and stakeholders.
- They can formulate the mission and vision and link it with the aims of the business.

3 Example of entrepreneurial qualities from a scenario:

Read the scenario below and answer the questions that follow.

ELITE SALON (ES)

Thuli the owner of Elite Salon did not lose hope when the Covid-19 pandemic threatened her business profits. She decided to provide special services for her clients who are still not able to visit the salon during stage 3 of the lockdown regulations. She provided masks and gloves for her clients who may want to utilise her services without wearing these products.

- Identify THREE qualities of the entrepreneur displayed by Thuli. Motivate your answer by quoting from the scenario.

(9)

Use the table below as a guide to answer this question

QUALITIES OF AN ENTREPRENEUR	MOTIVATIONS
1.	
2.	
3.	

- NOTE:**
- 1 You need to understand the meaning of each entrepreneurial quality so that you can identify these qualities from a given scenario.
 - 2 You do not need to redraw the table as this is just a guide on how to answer this question.

SUGGESTED RESPONSES

QUALITIES OF AN ENTREPRENEUR	MOTIVATIONS
Perseverance ✓✓	Thuli the owner of Elite Salon did not lose hope when the Covid-19 pandemic threatened her business profits. ✓
Creativity and innovation ✓✓	She decided to provide special services for her clients who are still not able to visit the salon during stage 3 of the lockdown regulation✓
Honesty and ethics ✓✓	She provided masks and gloves for her clients who may want to utilise her services without wearing these products✓
Sub max (6)	Sub max (3)

NOTE: You will not be awarded marks for motivation if the entrepreneurial qualities were incorrectly identified. Max (9)

4 Assess a business against these qualities

- This is usually a research project where you may be required to visit any successful entrepreneur and interview him/her against the qualities of a successful entrepreneur that are mentioned on page 123 and 124.
- You must be able to develop a questionnaire or interview schedule that will be used to assess a business against the qualities of an entrepreneur.
- Questions must be structured in such a way that an entrepreneur will be able to respond to EACH entrepreneur quality e.g.

QUALITIES OF AN ENTREPRENEUR	QUESTIONS	RESPONSES FROM AN ENTREPRENEUR
Risk taking	What are you going to do if your business fails?	
Creativity and innovation	How do you solve business problems? What makes you sell different types of products?	
Passion and energy	How many hours do you spend in your business and how do you feel about it?	
Product and customer focus	How do you ensure that the needs of your customers are satisfied?	
Responsibility	Did you ever make a bad business decision, if yes, how did you handle them it?	
Confidence and adaptability	What makes you believe that your business will be sustainable and successful?	

NOTE: The above questions are exemplars. The interview schedule can even have consists of follow-on questions.

5 Key success factors of a business

Sustainability

Sustainability means that a business:

- Continues to exist despite all the challenges and threats it is confronted with.
- Does not damage the environment and the community in which it operates.
- Manages and reports on triple bottom line e.g. profits, people and planet.
- Attracts and retains employees more easily.
- Experiences less financial and reputation risk.
- Involves stakeholders in joint decisions-making and learning from customers, employees, and the surrounding community.
- Puts environmental management systems in place to minimise the effects of business activities on the environment.
- Analyses the environmental and social impacts of the products and services the business uses and produces.
- Reveals exactly what the business does and what it stands for.

Profitability

Profitability means that a business:

- Makes money and management is passionate about their business operations
- Manages money in such a way that sound return on investment can be guaranteed to investors.
- Attracts even more investors which enables the business to expand its activities and to become even more profitable.

Customer base

Customer base means that a business:

- Meets the needs of the customer consistently and provides excellent service.
- Keeps on looking for ways to expand their consumer base.
- Keeps a record of the people buying their products.
- Collects the customers' contact details.

Knowing the market

Knowing the market means that a business:

- Conducts a thorough research to find out about the needs of the customers and the type of the customers that buy the product or service.
- Identifies the needs and taste of consumers that help ensure continuous product and service development.

Good leadership

- A business needs good leaders who are team players, listen to staff members and respect them.
- Good leaders also bring energy, enthusiasm, and urgency to the workplace.
- This filters through the business and motivates staff to perform even more than expected.

Ethics/control and good governance

- An unethical corrupt business is not sustainable.
- Staff and customers get to know the business reputation and will not continue to support a business with poor governance.

Stable workforce

A stable workforce means that employees are:

- Motivated, happy and well trained.
- Loyal to the business and they stay with the business for longer
- Productive and take pride in their work.

Uniqueness of the business/product/service

Uniqueness of the business/product/service means that a business:

- Offers different products and services from their competitors.
- Product or service makes customers notice it and talk about it.

6 Identifying areas for improvement

- A business should consider the following aspects when evaluating areas for improvement:
 - Regularly evaluate the price of every product
 - Operate from a plan based on its vision
 - Make sure the money comes in quickly
 - Keep business expenses to a minimum
 - Set goals with reasonable milestones and timelines
 - Evaluate the benefit of increased sales against the cost of marketing
 - Identify and implement the technology needed, support its operation and growth
 - Identify the target customer and what they do for them
 - Research and categorise competition noting their strengths and weaknesses
 - Differentiate the business against competitors and communicate this in sales and marketing programme.
 - Look after its best customers
 - Know the needs of customers e.g. ask for customers feedback through surveys/direct interaction with them.
 - Regular review sessions where they review their structure/vision/delivery methods etc.

7 Strategies that businesses can use to ensure that they remain profitable and sustainable

7.1 Thorough planning

- Proper succession planning so that it can continue to exist despite all the challenges and threats it is confronted with.
- Thorough planning will also ensure the business is not damaging the environment

7.2 Sound managing finances

- Ensure that a sound return of investment can be guaranteed to investors

7.3 Effective management of scarce resources and employees

- Ensure that business is using resources sparingly & employees are attracted and retained

7.4 Maintaining a solid customer base

- Keep a record of the people buying their product and meeting the needs of the customer consistently

7.5 Behaving ethically

- Ensure that people continue to support your business and having the image of not being corrupt

7.6 Being socially responsible

- Promote the image of the business by investing in CSI projects

7.7 Being ethical and taking care of the environment

- Being environmentally aware and friendly.
- Considering the triple bottom line by managing profit, planet and people.

7.8 Up skilling and development of employees

- Ensure that employees keep abreast with changing technologies in the business industry

7.9 Consistency and reliability

- Maintain a solid customer base and build on business success and learn from mistakes.

7.10 Upholding transparency

- Reveal what the business does and what it stands for.

CHAPTER 20

PRESENTATION OF BUSINESS INFORMATION

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain the importance of presenting business information.
- Differentiate/Distinguish between verbal and non-verbal presentation and give practical examples of each.
- Outline/Mention/Explain/Discuss types of visual aids e.g. tables/graphs/diagrams/posters/handouts etc.
- Identify the above-mentioned visual aids from given scenarios/case studies/statements.
- Explain/Discuss how the presenter must prepare the following visual aids:
 - Transparencies/slides
 - Posters
 - Handouts
- Discuss/Explain/Recommend factors that the presenter must consider when designing a presentation e.g.:
 - Know your audience
 - Use simple language
 - Include visual aids, etc.
- Justify the reasons why business presentations must be in a written format.
- Outline/Mention/Explain types of written information, e.g. business reports, business plans, information, analyses etc.
- Outline/Mention/Explain/Recommend steps in report writing.
- Critically analyse a business report and recommend areas for improvement.
- Outline/Mention/Explain factors that must be considered when composing a flyer.
- Explain how to respond to questions about work and presentations/handle feedback after a presentation in a non-aggressive and professional manner

TERMS AND DEFINITIONS

TERM	DEFINITION
Visual aids	An illustration such as film, slides or model designed to supplement verbal and non-verbal communication.
Feedback	Information about reactions to the performance of a task or a product which is used as a basis for improvement.
Transparency	A plastic sheet which is placed on an overhead projector from where the information is displayed on a wall or a screen larger than the transparency.
Audience	The people who watch or listen.
Hand-outs	Printed information provided to the audience to accompany a presentation.
Analytical reports	Reports that provide data and conclusions, with the inclusion of recommendations.
Informative reports	Reports that present data without analysis or recommendations.
Verbal presentation	Oral presentations delivered to audience
Non-verbal presentation	Mostly done by means of printed material.

1 The importance of presenting business information

- The business information needs to be presented and be made available to employees/stakeholders.
- Business information enables management to:
 - provide stakeholders with the information to make strategic, tactical and operational decisions.
 - ensures success, transparency and smooth running of the business.
 - assist management in making decisions.
 - provide information on financial statements/investigations/disputes/new policies etc.
 - persuade management to implement a strategy.
 - identify trends in the market and anticipate challenges
 - devise strategies to deal with the challenges

2 Difference between verbal and non-verbal presentation

VERBAL PRESENTATION	NON-VERBAL PRESENTATION
Exchange information using oral presentation/spoken	Communicate by means of printed media
Information can be heard	Communication can be read.
Information cannot be stored	Information can be stored
Examples: video conferencing, workshops, seminars, conferences, public speaking etc.	Examples: written reports, handouts, charts, slides etc.

3 Types of visual aids

3.1 Tables

- A set of facts/figures systematically displayed, especially in columns.
- They are usually used to compare or contrast different things or ideas.

3.2 Graphs

- These are visual illustrations to provide information in a clear and concise way.
- Two-dimensional drawing showing a relationship between two set of variables by means of a line/curve/bars
- These can be inclusive of types of graphs such as line graphs/bar graphs/pie graphs etc.
- Information in the graphs requires interpretation and comparisons must be made to see relationship between different sets of data.

3.3 Diagrams

- A drawing showing the appearance/structure/workings of data in a schematic representation.
- Diagrams and illustrations are used for making verbal descriptions clearer.

3.4 Posters

- They are used to advertise something or act as a reminder of something.
- They are effective when they are bold and eye catching.

3.5 Hand-outs

- Printed information provided to the audience to accompany a presentation.
- People attending a verbal presentation prefer handouts at the end of the presentation to remind them of the key points of the presentation.

3.6 Data projector

- A slide projector that is used to display images to an audience.
- It is usually used for large audiences.

3.7 PowerPoint

- A collection of pages arranged in a sequence that contain text and images for presenting to an audience.
- Video clips can provide variety and capture the attention of the audience.

3.8 Interactive whiteboards/Smartboards

- An interactive display in the format of a white board that reacts to user input either directly or through other devices.
- It is useful to note down the most important points before or during a presentation.
- Useful to capture feedback and new ideas.

3.9 Flip charts/White boards

- A large pad of paper, bound so that each page can be turned over at the top to reveal the next page, used on a stand.
- Additional notes that was added during the presentation can be captured on computer after the presentation.

4 Guidelines on how to prepare transparencies/slides, posters, and handouts

4.1 Guidelines on how to prepare transparencies/slides

- Start with the text/headings
- Use keywords instead of full sentences
- Use legible font and font size.
- Limit the amount of information on each slide.
- Avoid too much writing and complicated graphs
- Choose images that may help to communicate the message.
- Include graphics.
- Keep slides/images/graphs simple.
- Make sure there are no grammatical/spelling errors.
- Use bright colours to increase visibility.
- Structure information in a logical sequence.

4.2 Guidelines on how to prepare posters

- Make use of headings
- Make sure all relevant information appears on the poster
- Use bright colours to enhance visibility
- Use short phrases instead of full sentences
- Make use of pictures
- Posters must be bold, creative and easy to read
- They must have essential details and be clearly summarised
- Get the intended message across strongly

4.3 Guidelines on how to prepare handouts

- Structure information in a logical sequence
- Use a legible font size and font size
- Choose images that may help to communicate the message.
- Make sure there are no grammatical/spelling errors.
- Use bright colours to increase visibility.
- Refrain from using busy borders, different fonts and too many different colours.
- Allow an empty page at the end of the handout to allow for the audience to make additional notes during the presentation.

4.4 Factors that the presenter must consider when designing a presentation

- Know your audience.
- Presentation should include an introduction, body and conclusion.
- State the aims of the presentation in your introduction.
- Outline the most important information first.
- Use visual aids/tables/graphs/charts/diagrams/pictures effectively.
- Use suitable section titles/headings, sub-headings and bullets.
- Summarise key findings/Conclude by indicating how goals were met.
- Consider external factors, e.g. noisy surroundings, which may influence the presentation.
- Keep to the time limit to prevent boredom.
- Be well prepared/Research the topic in depth
- Allow time for feedback/questions.
- Speak clearly and audibly.
- Keep eye-contact with the audience.

4.5 Reasons why business presentations must be in a written format.

- A presentation in a written format can easily be sent/stored for a later presentation.
- The electronic files can be emailed, distributed in the company or posted on the internet.
- The presentation, if in writing, can be used by someone else if the original presenter is no longer available.
- The written presentation can also be sent to the stakeholders that were unable to attend the presentation.

4.6 Types of written information

4.6.1 Business reports

- A business report is done for businesses that have been in operation and key information must be shared with stakeholders.
- Businesses use written reports to provide information on financial statements / investigations/disputes/disciplinary actions etc.
- These may be presented orally to an individual or to a group or electronically on a computer screen.
- The following questions need to be asked:
 - Who will use the report?
 - What information must be included in the business report?
 - What would be the best way to present the business information in the report?

4.6.2 Business plans

- These are a written document describing the nature of the business, the sales and marketing strategy and the financial background.
- They help present the business's goals and objectives to all stakeholders.

4.6.3 Business analysis

- This is a method of investigating all aspects of a business in order to assess its prospects.
- It presents an established business's information and development to all people in the company.

5 Steps in report writing

- Define the purpose of a report and who will be reading it.
- Be aware of who the reader of the report will be.
- Do research in order to gather data
- Plan the report structure e.g. title, contents page, introduction, body and conclusion
- Prepare a work plan, start early and allow time for brainstorming and preliminary research.
- Clearly display the topic of the report at the top of the page.
- Put together the first draft of the report, print the first draft and read sometime later.
- Ensure the information presented is useful to the decision-making process
- Organise and rewrite your material
- Prepare visual aids to help convey the information
- Ensure the report is accurate and to the point.
- Balance the quality of information by being specific and straight to the point.
- Anticipate the audience and issues, it could be distributed to people whom it was not intended.
- Write the executive summary.
- Reread the whole report to check for spelling, grammar and layout mistakes.

6 Guidelines on how to critically analyse a business report and recommendations for improvement

Factors to consider when analysing a business report	Recommended Improvement
Does it only contain relevant information?	Remove irrelevant information
Is the aim of the report achieved?	Make necessary adjustments in line with the aim of the report
Is the language and terminology used at the level of the people using the report?	Make use of language expert to make changes to the report
Determine if the report is useful.	Adjust the report by using a small sample to have access to the report and to make recommendations
Determine the credibility of the report	Improve the report by making use of credible research material
Determine if the diagrams, tables etc. used are adding value to the report or just filling pages	Only use diagrams, tables etc. if it is offering additional info

7 Factors that must be considered when composing a flyer

- Define the purpose of the flyer/Central message of the flyer
- Write a title that will attract the reader's attention
- Use graphics to attract attention/Be creative and use interesting images
- Focus on the benefits of the products/services
- Identify points clearly/Do not use many words
- Main details much in large print
- Keep it simple with white space
- Use text boxes if space allows
- Check your spelling
- Let someone proofread the contents before it goes to print
- Use bright paper and black text if budget does not allow for colour printing.
- Offer a discount on the product or service.

8 Handling feedback in a non-aggressive and professional manner after a presentation

- Note/write down the questions asked to be able to respond correctly.
- Be polite, confident and courteous/humorous.
- Address questions in an orderly manner.
- Listen to the whole question and then respond.
- Respond honestly and as best as you can
- Encourage questions from the audience.
- Repeat the question so that everyone can understand the basis of your response.
- Acknowledge good questions to motivate the audience to ask more questions.
- Rephrase questions if uncertain and if you do not know the answer then admit
- Limit question time so that it does not make you go over your time limit.
- Remain professional, polite and calm
- Pause and consider your answer before responding
- Apologise for the error that you have made
- Always address the questions and not the person/Address questions in an orderly manner
- Be assertive when answering questions and avoid being aggressive
- Do not make a second presentation when answering a question

CHAPTER 21

HUMAN RESOURCE FUNCTION

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Explain the role of the human resources function. (Recap).
- Outline/Mention/Explain/Discuss the human resources activities e.g.:
 - Recruitment
 - Selection
 - Contracts
 - Induction
 - Salaries
 - Benefits
- Discuss/Explain the recruitment procedure.
- Discuss/Explain sources of recruitment e.g. internal and external sources.
- Discuss/Explain the selection procedure.
- Explain/Discuss the role of the interviewer during the interview.
- Outline/Mention aspects/content of the employment contract.
- Evaluate an employment contract from given scenarios and make recommendations for improvement.
- Explain the meaning of induction.
- Discuss/Explain the purpose of induction.
- Discuss/Explain the placement procedure
- Differentiate between gross and net pay.
- Outline/Mention/Explain different system of salary determination methods e.g. piecemeal and time related.
- Distinguish between piecemeal and time-related salary determination methods.
- Outline/Mention/Explain employee benefits.
- Explain/Discuss the implications of the following Acts on the human resources function:
 - Labour Relations Act (LRA) No.66 of 1995
 - Basic Conditions of Employment Act (BCEA) No.75 of 1997
 - Employment Equity Act (EEA) No.55 of 1998,
 - Compensation for Occupational Injuries and Diseases Act (COIDA) No.61 of 1997
- Identify the above-mentioned Acts from given scenarios and recommend ways in which the human resources function can comply with these Acts.

1. TERMS AND DEFINITIONS

TERM	DEFINITION
Human Resource Function	The Human Resource Function deals with all aspects within the organisation that relates to employees.
Job analysis	The term “job analysis” refers to the components of job description and job specification as it relates to employees within an organisation.
Job description	Describes the duties and responsibilities of a specific job.
Job specification	Describes the minimum acceptable personal qualities/skills/ qualifications needed for the job.
Recruitment	Recruitment is the process used by business to identify vacancies in the business and attract suitable candidates for it.
Selection	To choose the best candidate to suite the position from a pool of applicants.
Employment contract	Oral or written agreement specifying terms and conditions under which a person consents to perform certain duties in return for an agreed upon wage or salary.
Salaries	Workers are compensated for work done or services delivered.
Benefits	Compensation beyond a regular wage or salary of an employee or when a business is legally required to offer it's employees.
Induction	Refers to the process of introducing new employees to the business and its related aspects
Placement	Process whereby a new employee is placed in a vacant position.

1 The meaning of the human resources function

- The human resources function is responsible for administering and controlling the workforce of a business to achieve its objectives.
- The human resources manager is responsible for performing the following activities:
 - Recruitment
 - Selection
 - Contracts
 - Induction
 - Salaries
 - Benefits

2 Analysis of the human resources activities

2.1 Meaning of recruitment

- Recruitment is the process used by business to identify vacancies and attract suitable candidates for the job.
- It aims at finding candidates who have the necessary knowledge/experience/qualification to fill the vacancy.
- Businesses may choose to use an internal or external method of recruitment depending on the nature/requirements of the vacancy.
- It is an on-going process as employees leave their jobs for other jobs/get promoted /retire/as new technological skills are required

Recruitment procedure

- The human resource manager determines the job needs in the business/identify vacancies
- Prepare the Job description and Job specification.
- Determine the key performance areas of the job.
- Choose the recruitment method e.g. internal or external method of recruitment
- Vacancies can be internally advertised via internal email/word of mouth/ posters/staff notices.
- If internal recruitment was unsuccessful, consider external recruitment.
- The advertisement should be prepared with the relevant information, e.g. the name of the company, contact details, contact person, etc.
- Place the advertisement in the appropriate media that will ensure that the best candidates apply

NOTE: The procedure can be in any order

Sources of recruitment

- The human resource manager must identify the sources he/she can use to recruit new employees.
- There are two main recruitment sources:

Internal source of recruitment

- The business looks for a suitable person within the organisation.
- Refers to the use of internal sources to advertise vacancies inside the business
- Examples of internal sources of recruitment:
 - Internal e-mails/Intranet/Websites to staff
 - Word of mouth
 - Business newsletter/circulars
 - Internal/management referrals
 - Notice board of the business
 - Internal bulletins
 - Recommendation of current employees
 - Head hunting within the business/organisational database

External source of recruitment

- The business looks for a suitable person outside the business
- Refers to the use of external sources to advertise vacancies outside the business
- Examples of external sources of recruitment:
 - Recruitment agencies
 - Billboards
 - Printed media, e.g. newspapers/flyers/magazines/posters
 - Electronic media, e.g. radio/TV
 - Social media/Social networks/Internet/Business websites
 - Walk-ins
 - Head hunting
 - Professional associations
 - Networking
 - Educational/Training institutions
 - Word of mouth

2.2 Meaning of selection

- Selection is done after recruitment where a business receives many application forms after advertising a job.

The selection procedure

- Determine fair assessment criteria on which selection will be based.
- Applicants must submit the application forms/curriculum vitae and certified copies of personal documents/IDs/proof of qualifications
- Sort the received CVs according to the assessment/selection criteria.
- Screen applications that meet the minimum job requirements and separate these from the rest.
- Preliminary interviews are conducted if many suitable applications were received.
- Reference checks should be made to verify the contents of CV's, e.g. contact previous employers to check work experience.
- Compile a shortlist of potential candidates identified.
- Shortlisted candidates may be subjected to various types of selection tests e.g. skills tests
- Invite shortlisted candidates for an interview.
- A written offer of employment is made to the selected candidate.
- Inform unsuccessful applicants about the outcome of their application.

2.3 The role of the interviewer during the interview

- Allocate the same amount of time to each candidate.
- Introduce members of the interviewing panel to each candidate/interviewee.
- Make the interviewee feel at ease.
- Explain the purpose of the interview.
- Ask open ended work related questions.
- Do not mislead the interviewee.
- Provide an opportunity for the interviewee to ask questions.
- Close the interview by thanking the interviewee for attending the interview.

2.4 Employment contract

- The employment contract is an agreement between the employer and the newly appointed employee and is legally binding.

2.4.1 Aspects/content of the employment contract

- The full name and address of the employer
- Signature of both employer and employee.
- Job title/position
- Job description.
- Job specification
- Working hours, e.g. normal time/overtime
- Salary/Remuneration package.
- Termination of the contract
- The date of commencement of employment and the details of a probation period.
- Other types of payment (benefits)
- Details of deductions e.g., PAYE, UIF, Medical Aid etc.
- Frequency of pay-outs and methods used e.g. direct bank deposit

2.5 The meaning of induction/Orientation

- Once the successful candidate has accepted the job offer and signed the employment contract, the employee will go through a process of induction.
- The process of introducing the new employee to the business/fellow colleagues/the work unit and the work that needs to be done.
- An overview of the business/the procedure at work/communication channels/general rules of the business are explained to the new employee.

2.5.1 The purpose of induction

- To introduce new employees to management/colleagues to establish relationships with fellow colleagues at different levels.
- Create opportunities for new employees to experience/explore different departments.
- Explain safety regulations and rules, so that new employees will understand their role/responsibilities in this regard.
- Communicate information about the products/services of the organisation
- Allow new employees the opportunity to ask questions that will reduce insecurity/anxiety/fear.
- Make new employees feel welcome by introducing them to their physical work space.
- Create a feeling of security.
- Create realistic expectations.
- Ensure that the new employees become productive as soon as possible.
- Inform new employees about the rules, policies, standard procedure and communication channels.
- Make new employees to feel welcome.

2.6 The placement procedure

- The new employee must be placed where he/she will add the most value to the business.
- The placement procedure outline specific responsibilities/expectations of the new position
- Determine the employee's strengths/weaknesses/skills/interests by subjecting him to various psychometric tests.
- Determine the relationship/similarities between the expectations of the position and the competencies of the new employee

2.7 Difference between gross and net pay

2.7.1 Meaning of a gross salary

- Gross salary is the salary earned before any deductions are made.
- It includes all company contributions such as medical aid, pension fund or provident fund, and allowances

2.7.2 Meaning of a net pay

- This is the amount of money that the employee takes home.
- It is the salary earned after any deductions e.g. income tax/retirement annuities/pension/investments etc.

2.8 Salary determination methods

- There are different systems to determine how to pay employees.
- The suitability of the system will depend on the type of job
- There two types of salary determination methods namely:
 - Piece meal and time related methods

2.8.1 Difference between piecemeal and time related salary payment

PIECEMEAL	TIME-RELATED
Workers are paid according to the number of items/units produced/action performed.	Workers are paid for the amount of time they spend at work/on a task.
Workers are not remunerated for the number of hours worked, regardless of how long it takes them to make the items	Workers with the same experience/qualifications are paid on salary scales regardless of the amount of work done.
Mostly used in factories particularly in the textile/technology industries.	Many private and public sector businesses use this method

2.9 Employee benefits

2.9.1 Pension fund

- Long term savings for retirement.
- Fund that is maintained from monthly contributions by the employee and employer.
- Money is invested by the fund administrators to provide the member with a lump sum and monthly pension on retirement.
- Examples of pension: Government Employee Pension Fund [GEPF].

2.9.2 Medical aid

- Fund that is maintained from monthly contributions by employees and a subsidy by employers.
- The fund is accessed when a member or its dependents require medical attention.
- The fund will pay the medical service provider the full amount or a portion of the expense.
- Example of medical aid: GEMS; Discovery

2.9.3 Provident Fund

- Long term savings for retirement.
- Fund that is maintained from monthly contributions by the employee and employer.
- Money is invested by the fund administrators to allow it to pay the member a lump sum on retirement or resignation.

2.9.4 Allowances

- Amount of money paid by the employer to the employee for specific expenses to allow the employee to render a more effective service.
- Examples of allowances: car/cell-phone/ tablet/travel allowances etc.
- Employees are taxed to the extent that they use these allowances for personal reasons.

2.9.5 Unemployment Insurance Fund (UIF)

- This is a compulsory amount that every company pays for each employee.
- The employee is only required to pay 1% of the total income earned deducted from the employee's salary
- The employer pays the other 1%.
- The fund provides benefits to employees that lose their job or unable to work due to illness/pregnancy/adoption etc.
- The fund also contributes to dependents if the employee dies.

2.9.6 Housing subsidy

- The business pays part of the cost of the home
- Housing subsidies assist low-middle income groups to buy their own home

3 The implications of legislation on the human resources function

3.1 The implication of the Labour Relations Act on the human resources function

- Allow workers to form workplace forums/trade unions to promote the interests of all employees.
- Promotes orderly negotiations and employee participation in decision making in the workplace.
- Protects the rights of employees/employers as outlined in the Constitution.
- Promotes resolution of labour disputes

3.2 The implication of Basic Conditions of Employment Act on the human resources function

- Ensure that employees do not work more than 45 hours a week.
- Over-time is limited to a maximum number of 3 hours per day and 10 hours per week.
- Ensure that employees utilise 21 days consecutive leave per year.
- Ensure that employees are granted 30 days sick leave in a three-year cycle.
- Meal interval for employees of 1 hour after 5 hours of work are adhered to

3.3 The implication of the employment Equity Act on the human resources function

- The human resources manager must guard against discriminatory appointments.
- Ensure that there is equal representation of all racial groups in every level of employment
- Promote equal opportunities and fair treatment.
- Ensure that diversity/inclusivity in the workplace is achieved.
- Prepare an employment equity plan in consultation with employees.
- Implement an employment equity plan.

3.4 The implications of the Skills Development Act on the human resources function

- The human resources function should interpret the aims and requirements of the SDA and adapt workplace skills training programmes accordingly.
- Identify the training needs of the employees and provide them with training opportunities so that they will perform their tasks efficiently.
- Assist managers in identifying skills/training needs to help them to introduce learnerships.
- Ensure training in the workplace is formalised/structured.

TERM 4

CHAPTER 22

TEAM PERFORMANCE AND CONFLICT MANAGEMENT

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

TEAMWORK

- Briefly explain/discuss the importance of teamwork
- Outline/Mention/Name/Explain the stages of team development, e.g.:
 - Forming
 - Storming
 - Norming
 - Performing
- Identify the stages of team development from given scenarios/statements/case studies.

TEAM DYNAMICS THEORIES

- Briefly explain/discuss the reasons why businesses use team dynamic theories.
- Describe/Explain/Discuss the following team dynamic theories:
 - Belbin role theory
 - Insight based on Jungian theory
 - MTR-I approach
 - Margerison-McCann profiles
 - Group consensus
- Identify the above-mentioned theories from given scenarios/statements.
- Compare the nature of the abovementioned theories.

CONFLICT MANAGEMENT

- Define the term conflict
- Identify and discuss causes of conflict from given scenarios/case studies.
- Discuss the following conflict management theories:
 - Traditional theory
 - Contemporary theory
- Select one of the abovementioned conflict management theory and justify the reason why businesses should use this theory to solve business problems.
- Outline/Mention/Explain/Discuss the function of workplace forums.
- Explain the differences between trade unions and workplace forums.

TERMS AND DEFINITIONS

TERM	DEFINITION
Team	Group of people who work together to achieve a common goal.
Conflict	Difference in view and approach
Conflict management	A practice of identifying and handling conflict in a sensible/fair and efficient manner,
Teamwork	Interactions with team members to achieve a common goal.
Team dynamics	A way in which team members work together in a group.
Forming	Team members get to know each other and accept their roles in the team.
Storming	Team members confront each other with their different ideas.
Norming	Team members accept each other and set common goals and values for the team.
Performing	Teams are achieving their goals.
Adjourning	Team members have to leave a team after completion of the tasks.
Team dynamic theories	Forces that show team responses/behaviours/performance.
Grievance	A formal complaint laid by an employee when he/she feels that he/she has been ill-treated by the employer.
Co-operation/ Collaboration	Willingness to co-operate in the team to achieve objectives.
Consensus	A process for group decision making

1 Meaning of teamwork

- Teamwork can be defined as a joint action by a group of people in which each person gives up his/her individual interests and options for the common goal of the team.
- This means that effective and efficient teamwork goes beyond individual accomplishments.
- Teamwork is a joint effort by group members where they give up their individual opinions and strive to work together to achieve a common goal.

1.1 Importance of teamwork

- Teams have a common goal/purpose that unite team members.
- Teamwork leads to synergy, commitment, high productivity, employee empowerment, job satisfaction and organisational effectiveness.
- Effective teamwork can provide a basis for consistency performing at a high level

2 Stage of team development

2.1 Forming stage

- This stage is the initial stage where team members get to know one another.
- Team members think about their new tasks and new environment
- The team learns about team processes and procedures.
- Team members gather information and impressions about each other.
- This is a comfortable stage to be in.
- People focus on being busy with routines, such as team organisation e.g. who does what, when to meet each other, etc.

2.2 Storming

- The team begins to face technical, interpersonal and social problems.
- Team members could end up fighting and arguing.
- At this stage, there is conflict because they confront each other with their ideas.
- The true character of team members starts to show as they experience the first round of conflict
- Different ideas from team members will compete for consideration.
- Team members open-up to each other and confront each other's ideas/perspectives.
- This stage is often unpleasant, but it is necessary for teams to grow.
- Team members need to be matured, patient and tolerant of each other's ideas and behavior in order to move successfully to the next stage.

2.3 Norming/Settling and reconciliation

- The team starts working through individual/social issues and start to settle down.
- Team members establish their own norms and behaviour.
- They begin to trust each other, and reconciliation takes place.
- A team develops good interpersonal skills and members become better at problem solving.
- Team members accept each other and set common goals and values for the team.
- Team members form agreement and consensus.
- Roles and responsibilities are clear and accepted.
- Team members have the ambition to work for the success of the team's goals.
- They cross-train and learn new job skills.
- Team members manage time and quality work with growing competence, confidence and independence.

2.4 Performing/Working together towards achieving a goal

- In this stage, the teams are achieving their goals by helping each other
- Team members are aware of strategies and aims of the team.
- They have direction without interference from the leader.
- Leaders delegate and oversee the processes and procedures.
- Team members know each other and can function as a unit.
- They find ways to get the job done smoothly without conflict/external supervision.
- Conflict disappears, problems are solved, and successive goals are achieved.
- Team members are motivated and can handle disagreements maturely/positively.
- The team takes pride in its own work and accomplishments.

2.5 Adjourning/ Mourning

- In this stage, team members must leave a team and prepare themselves for the next team.
- The focus is on the completion of the task/ending the project rather than on task performance.
- All tasks need to be completed before the team finally dissolves
- It's also the stage for recognition for participation and achievement.
- Breaking up the team may be traumatic as team members may find it difficult to perform as individuals once again.

3 Team dynamics

3.1 Meaning of team dynamics

- Refers to unforeseen natural forces that influence how a team responds, behave and performs.
- These dynamics have a major influence on a team's success or failure
- Team dynamics is the way how people in a team interact with one another.
- The roles that people play in a business and what makes a team successful.

3.2 Reasons why businesses use team dynamic theories

- Team dynamic theories explain how effective teams work/operate.
- Businesses are able to allocate tasks according to the roles of team members.
- Team members can maximise performance as tasks are allocated according to their abilities/skills/attributes/personalities.
- Team members with similar strengths may compete for team tasks/responsibilities that best suit their abilities/competencies.
- Theories assist team leaders to understand the personality types of team members so that tasks are assigned more effectively.
- Conflict may be minimised when team members perform different roles.

3.3. Types of team dynamic theories

3.3.1 Belbin Role Theory

- This theory explains how team members interact
- People take on different roles and will have dominant and sub dominant roles.
- The Belbin role theory can be used to create balance in a team or recruit members for specific roles.
- According to this theory an effective team has members that cover the following nine key roles while performing their tasks:

Types of Belbin roles

ROLE	DESCRIPTION
Coordinator	• Respected leader who helps everyone focus on their task • Guide the team to what they perceive are the objectives. • Able to recognise the value each member can contribute. • Calm and good natured and delegate tasks very effectively.
Plant	• Thought orientated. • Introverted and prefer to work apart from the team. • Thrive on praise but criticism is very hard for them to deal with. • Creative innovator who comes up with new ideas
Resource investigator	• They are outgoing and are often extrovert • Innovative and curious. • Explores available options, develop contacts and negotiate for resources on behalf of the team
Implementer	• Plans practical/workable strategies • Carries out plans effectively • Well organised and predictable • People who get the job done.
Team worker	• Helps team to settle in • Identifies what needs to be done and does it. • Provide support and make sure the team work together. • Tend to be popular people who are very capable in their own ways.
Shaper	• Challenges the team • Action orientated • Keeps the team moving • Enjoy stimulating others, questioning norms and find the best approach to challenges. • Does not lose focus/momentum
Completer/ Finisher	• Ensures that the project is completed thoroughly • Ensures that there have been no errors or omissions. • Pays attention to the smallest details. • Concern about deadlines and will push the team to make sure the job is done.
Specialist	• Has specialised knowledge to get the job done. • Skillful and work to maintain their provisional status. • Has in-depth knowledge in key areas • Commits him/herself fully to their field of expertise.
Monitor/Evaluator	• Makes impartial judgments and he/she is objective • Weighs up team's options • Best at analysing ideas that other people come up with. • Critical thinker and very strategic in their approach.

NOTE: The table above illustrates the sequence in which the team roles should be taught for better understanding.

3.3.2 Insight based on Jungian theory

- This theory recognised personality types that follow certain behavior patterns
- It is useful for team members to know their own personality type and the personality types of the rest of the team in order to understand their own values and goals.
- According to this theory people are born with a preference to certain attitudes and functions which will be used effectively during the adulthood stage.
- Jung believed that the most superior function will influence an individual's interaction with others.

Jungian' pairs of opposing attitudes and functions

- Extrovert versus introvert
- Sensing versus intuition
- Thinking versus Feeling
- Judging versus perceiving
- The combination of the above attitudes determines a personality type.
- Team leaders that understand the strength and weaknesses of each personality type can analyse the composition of a team according to types.
- Team leaders can guide team members to success by using their natural strengths and being aware of their weaknesses and compensating for them.
- Team members who understand this theory will be able to understand why they behave the way they do.
- They learn to understand what drives their own actions and others' actions, values and goals.

3.3.3 MTR-i Approach/Management team role indicator approach

- This theory is a model that can be used as an instrument for team development.
- This theory teams roles in terms of the contributions or "product" each member brings to the team.
- It measures what a person does within a team
- The three factors that are measured include:
 - What the person is doing.
 - What colleagues think each other is doing.
 - The position description for each team member.
- The following are eight MTR-i team roles, each of which shows a different type of contribution that is made to the team:

ROLE	WHAT THEY DO
Coaches	• Create a positive team atmosphere and reach consensus • Builds strong relationships with people
Crusaders	• Focus on the important issues • Favours a specific course of action and make a case for it
Explorers	• Explore new ideas and possibilities • Finds new and better ways of doing things
Innovators	• Bring new and alternative perspectives • Use their imagination to create new and different ideas
Sculptors	• Get the team to work on the urgent issues • Gets things done quickly
Curators	• Gives clarity of ideas and information • Helps others to make sense of the available data
Conductors	• Introduces logical organisations into the way things are done
Scientists	• Generate models to demonstrate how things work • Explains how and why things happen

3.3.4 Margerison-McCann team profiles

- This theory defines a set of management styles and emphasises on the need to integrate all these styles to create an effective team.
- The strength of the system lies in developing effective team dynamics.
- This approach uses the Team Management Wheel to maximise personal strengths for building balanced and high performing teams
- Individual development is seen as the first step to effective team development.
- The theory identifies how people:
 - Prefer to work e.g. on their own or with others
 - Gather and use information
 - Make decision and organise themselves
- This approach focuses on individual development and maximising personal potential so that individuals contribute effectively to the team.
- It looks at building high balanced and high performing teams

Margerison-McCann eight roles

ROLE	WHAT THEY DO
Reporter-adviser	• Enjoys giving and gathering information
Creator-innovator	• Likes to come up with ideas and different ways of approaching tasks
Explorer-promoter	• Enjoys exploring possibilities and looking for new opportunities. • They get people enthusiastic about ideas • They also like to compare new ideas with what others are doing
Assessor-developer	• Prefers working where alternatives can be analysed • Assesses and tests the applicability of new approaches
Thruster-organiser	• Likes to push forward and get results • They make things and produce actions out of ideas • They like to experiment with new ideas/discussion/experiments
Concluder/ producer	• Prefers working in a systematic way • Concludes and delivers outputs • They take great pride in producing a product/services to the required standard.
Controller/ inspector	• Enjoys focusing on the details and controlling aspects of work. • Upholds and safeguards standards and processes • They make sure that the facts and figures are correct.
Upholder/maintainer	• Likes to uphold standards and values and maintain team excellence • Makes sure that the team has a sound basis for operations. • They take pride in maintaining both the physical side of work and the social side.

3.3.5 Group consensus

- Consensus is a process used by a group to come to an agreement by discussing the facts and convincing each other on the best decision.
- The input and ideas of all members are gathered to make a final decision that is acceptable to all.
- Groups must have the following characteristics for consensus to be a positive experience:
 - Shared values
 - Some skills in group process and conflict resolution
 - Commitment and responsibility to the group by its members
 - Sufficient time for everyone to participate in the process
 - Identify, define and discuss the problem
 - Brainstorm a list of alternative proposals without rejecting any ideas
 - Discuss proposals, make changes and set priorities
 - Test for consensus
 - Get the group to make a decision and plan their action once consensus is reached
 - Get those who are still not in agreement to experiment with the decision for a set time period.

4 Conflict Management

4.1 Meaning of conflict management

- Conflict management is the process of planning to prevent conflict where possible and organising to resolve conflict as quickly as possible.
- All members of the organisation need to develop ways of keeping conflict to a minimum and solve problems caused by conflict.
- Conflict can be positive if managed correctly, since it means communication is taking place.

4.2 Meaning of conflict

- Conflict is a struggle/disagreement/argument between two people.
- Disagreement between two parties in which one or both parties believe that a personal interest/need is threatened

4.3 Causes of conflict

- Personal differences/Different personalities
- Poor communication
- Competition
- Ignoring rules/procedures
- Poor organisation/leadership/administrative procedures and systems
- Workload and stress/Unrealistic expectation
- Confusion about scheduling and deadlines
- Unclear responsibilities
- Distracted by personal objectives
- Lack of/Insufficient resources
- Constant changes
- Different goals/objectives for group/individuals
- Different opinions
- Misconduct/Unacceptable behaviour
- Unfair treatment of workers/Favoritism by management/Discrimination
- Lack of trust amongst workers

4.3.1 Explanation of causes of conflict in the workplace

- Lack of proper communication between management and workers.
- Ignoring rules/procedures may result in disagreements and conflict.
- Management and/or workers may have different personalities/ backgrounds.
- Different values/levels of knowledge/skills/experience of managers/workers.
- Little/no co-operation between internal and/or external parties/stakeholders.
- Lack of recognition for good work, e.g. a manager may not show appreciation for extra hours worked to meet deadlines.
- Lack of employee development may increase frustration levels as workers may repeat errors due to a lack of knowledge/skills.
- Unfair disciplinary procedures, e.g. favouritism/nepotism.
- Little/no support from management with regards to supplying the necessary resources and providing guidelines.
- Leadership styles used, e.g. autocratic managers may not consider worker inputs.
- Unrealistic deadlines/Heavy workloads lead to stress resulting in conflict.
- Lack of agreement on mutual matters, e.g. remuneration/working hours.
- Unhealthy competition/Inter-team rivalry may cause workers to lose focus on team targets.
- Lack of commitment/Distracted by personal objectives which may lead to an inability to meet pre-set targets.
- Constant changes may cause instability
- Lack of clarity regarding employees' roles and responsibilities.

4.4 Conflict Management theories

4.4.1 Traditional theory

- This theory is based on the notion that conflict is bad and should be avoided as it disturbs the running of an organisation.
- This approach assumes that conflict is caused by trouble makers who do not identify with the goals of the organisation.
- These trouble makers are seen as undesirable because they are seen as causing trouble for management.
- Conflict should therefore be avoided according to this approach.
- Management thus uses its power to suppress the trouble makers and should force them out of the organisation.
- This leads to a win lose situation, with management retaining control and restoring their order while the troublemaker is forced to fit in or move out of the organisation.

4.4.2 Contemporary theory

- This theory is based on the belief that conflict is a normal part of human interaction.
- Conflict arises as a normal result of change.
- It is understood that conflict can be beneficial and has the potential to lead to constructive changes within the organisation.
- Conflict must be managed through conflict resolution skills.
- Conflict situations often generate new ideas and change.
- Management thus seeks to use strategies such as negotiation and consultation to arrive at a win-win situation.
- Consultation and negotiations with unions and workplace forums are good examples of implementing contemporary theories.
- Management can thus achieve an outcome that is acceptable to management and employees through such negotiations.

5 Meaning of workplace forums

- A workplace forum is an elected organisation consisting of employees in a workplace.
- It is a forum of employees of a business that employs more than 100 people.
- Workplace forums were introduced by the Labour Relations Act.
- They are useful for promoting communication, minimising and resolving conflict in the workplace.
- A trade union will make a request to the CCMA to form a workplace forum.
- Employers must give workplace forum all information that is relevant to workers.
- Workplace forums prevent employers from making all the decisions about matters which directly affect employees without consulting them.

5.1 Function of workplace forums

- Prevent unilateral decision made by employers on issues affecting the employees.
- Encourages workers participation in decision making.
- Workplace forum has the right to be consulted by employer.
- Promotes the interests of all employees in the workplace.
- Promotes efficiency in the workplace through inputs/recommendations.
- Consult with the employer and to reach consensus about working conditions.
- Consult with the employer on issues that could cause conflict
- Resolves conflict between employers and employees.
- Improve efficiency and productivity through input/recommendations.

5.2 Ways in which a workplace forum differs from a trade union

- A trade union is a legal entity that can be sue or be sued in its own name.
- A trade union negotiates salaries and wages, whereas a workplace forum does not deal with remuneration.
- A trade union can organise a strike under certain circumstances, whereas a workplace forum cannot.
- Non-union members can belong to a workplace forum.