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**EAST RAND CLUSTER
BUSINESS STUDIES
GRADE 12
PRELIMINARY EXAMINATION 2023**

Time: 3 Hours
Examiner: M. Olivier
Contribution: Cluster Schools

Total: 300 Marks
Moderator: C. De Beer

MARKING GUIDELINES

**A standardisation session will take place on
9 September 2023 at 9:00 at Shangri-La Academy, Kempton Park**

SECTION A

QUESTION 1

[54]

1.1	1.2	1.3	1.4	1.5
B ✓✓	C ✓✓	D ✓✓	D ✓✓	B ✓✓

1.6	1.7	1.8	1.9	1.10
B ✓✓✓	D ✓✓	A ✓✓	A ✓✓	A ✓✓

1.11	1.12	1.13	1.14	1.15
D ✓✓	A ✓✓✓	C ✓✓✓	C ✓✓	C ✓✓

1.16	1.17	1.18	1.19
B ✓✓	A ✓✓	D ✓✓✓	B ✓✓

1.20	1.21	1.22	1.23
C ✓✓✓	C ✓✓	B ✓✓	D ✓✓

1.24
B ✓✓✓

QUESTION 2

[22]

- 2.1 Introduction ✓✓
- 2.2 Marketing analysis ✓✓
- 2.3 Target market ✓✓
- 2.4 Promotion ✓✓
- 2.5 Franchising ✓✓
- 2.6 People ✓✓
- 2.7 Marketing plan ✓✓
- 2.8 Psychological pricing ✓✓
- 2.9 Retailer ✓✓
- 2.10 Convenience goods ✓✓
- 2.11 Brand stretching ✓✓

QUESTION 3

[24]

- 3.1 Shares ✓✓
- 3.2 Diversification ✓✓
- 3.3 Basket of shares ✓✓
- 3.4 Dividends ✓✓
- 3.5 Redeemable ✓✓
- 3.6 Low ✓✓
- 3.7 Defensive strategy ✓✓
- 3.8 Cession ✓✓
- 3.9 R50 000 ✓✓
- 3.10 Stock-in-transit ✓✓
- 3.11 Public liability ✓✓
- 3.12 Changes in technology ✓✓

TOTAL A: 100

SECTION B

QUESTION 4

[50]

4.1 Answer the questions in the following schematic diagram.

4.1.1 Name the external environment in which Porter's Six Forces Model is most applicable.

(1)

Market Environment ✓

(DO NOT ACCEPT: external environment.)

4.1.2 Except for the threat of new entrants to the general retail industry is a challenge to existing retailers.

List any FOUR other elements of Porter's Six Forces.

(4)

- Level of rivalry ✓
- Power of the supplier ✓
- Power of the buyer ✓
- Availability of substitute goods ✓
- Power of complementary goods ✓

(DO NOT ACCEPT: Treats of new entrants
(Any 4 elements x 1 mark each)

4.1.3 The threat of new entrants to the general retail industry is a challenge to existing retailers.

Discuss TWO possible strategies with relevant examples.

(4)

- Through market research the business should be aware of subtle changes✓ in the market and have a marketing plan to counteract this change✓.
- The franchise needs to be flexible ✓ (e.g. introduce new products or services✓) so to maintain the competitive edge, i.e. using a differentiation strategy✓
- The business needs to effectively deal with customer complaints✓
- The business could decide to enter negotiations with new entrant ✓ and merge and in so doing increase their market share✓
- This may be an opportunity for the business to review its current policies✓ (e.g. mission✓, recruitment✓, supplier selection✓, etc) considering the new competition that is entering the market
- Customer loyalty programs may be introduced ✓to make the business more attractive✓ than those of competitors.
- A business reduces the price of certain products/services ✓to make sure the business is a more attractive option than its competitors✓
- A business may also register a patent ✓to deter potential new businesses from selling similar products✓

- Large sums of money may be spent on advertising ✓ and having promotions ✓ where products or services are sold at a lower price ✓, making it difficult for a new business to enter the market ✓

(Consider any other relevant strategies to deal with the threat of new entrants to the general retail industry)

(Any 5 facts x 1 mark each = 5 marks),

(DO NOT ACCEPT: Negotiate with mall management to not allow competitor space in the mall or close to you. As this are unfair competition as ruled by the competition board.)

4.2 Macro challenges faced by a general retailer in South Africa.

4.2.1 Economic

Describe factors that can cause possible challenges

- Economic growth and development rates in the country, and the direct consequence of these factors: the improvement (or deterioration) of the standard of living ✓ of the people of the country.
- Inflation rates: inflation is the continuous and significant increase in the general price level of goods and services. ✓
- The higher the inflation rate, the lower the purchasing power ✓ the monetary unit will be.
- Interest rates: the rate at which people or businesses borrow money ✓ from the bank or the percentage return on investment when saving money ✓ in the bank.
- High interest rates make it difficult for businesses to borrow ✓ money to expand. ✓
- Exchange rates, i.e., the strength of the local currency vs. the currencies of other countries. ✓
- If the rand depreciates against another currency, it will become more expensive to import from that country. ✓
- High unemployment rates mean people do not have money ✓ and as a result, businesses suffer lower profits. ✓
- Taxes such as income tax ✓, VAT ✓, import duties ✓, etc.

(Consider any other relevant economic challenge)

(Minimum of 1 mark, has to show why it is a challenge for a general retailer)
(2)

Provide a different strategy for each of the challenges.

The suggested strategy must link with the given challenge.

(Consider any relevant strategy to overcome the challenge)
(2)

4.2.2 Social

Describe factors that can cause possible challenges

- The number of single parents providing for a family. ✓
- HIV/Aids infection and diseases such as TB and malaria. ✓
- Levels of literacy/education which hamper the development of a career ✓ and the ability to ask for a decent wage / salary. ✓
- High levels of unemployment rates ✓
- Personal safety and crime. ✓
- The changing role of women ✓ in society in certain cultures.
- Cultural and ethnical attitudes / traditions. ✓

(Consider any other relevant social challenge)

(Minimum of 1 mark, has to show why it is a challenge for a general retailer)

(2)

Provide a different strategy for each of the challenges.

The suggested strategy must link with the given challenge.

(Consider any relevant strategy to overcome the challenge)

(2)

4.2.3 Technology

Describe factors that can cause possible challenges

- Rapid development of issues surrounding social media. ✓
- Automation of different processes ✓, requiring less use of lower-skilled ✓ (and thus cheaper manual labour ✓).
- Advances in online money transfers ✓ (internet banking, electronic fund transfers).
- Product innovation through Research and Development ✓
- (R & D).

(Consider any other relevant technological challenge)

(Minimum of 1 mark, has to show why it is a challenge for a general retailer)

(2)

Provide a different strategy for each of the challenges.

The suggested strategy must link with the given challenge.

(Consider any relevant strategy to overcome the challenge)

4.3 Refer to the extract and answer the questions that follow:

4.3.1 Refer to the above People Strategy from Woolworths.

Evaluate, with examples, how management may realise these objectives while utilising the following leadership styles: (9)

Democratic	Autocratic	Transformational
Allows subordinates to provide input and play a role in decision making ✓ Having weekly meetings discussing progress and asking for suggestions on improvements ✓✓	Seldom allows for input from subordinates and makes all the decisions. ✓ Adapting policies to allow for growth, training, inclusivity and so on, however, deciding when and how it should be done ✓✓	Charismatic by nature. Focuses on teamwork and trying to motivate staff in various ways. ✓ Having events or team building activities whereby management gets involved with all members of staff to show dedication to improve and grow their staff. ✓✓
Suitable answers	Suitable answers	Suitable answers

(1 mark for definition)

(2 marks for example per leadership style)

4.3.2 The Transactional leadership style can be described as an approach of “give and take”.

Discuss TWO disadvantages of this style of leadership. (2)

- Should employees see the reward as insufficient ✓, they may become demotivated or demand more. ✓
- Often, businesses do not have monetary or non-monetary factors to offer ✓ due to financial constraints. ✓

4.3.3 Identify THREE non-monetary factors to motivate employees and evaluate how each factor may lead to a more motivated workforce. (6)

- Job enlargement: additional tasks added to workload – less repetition and feeling of doing something valuable ✓
- Job enrichment: more responsibility and authority may lead to employees feeling like they have a greater purpose ✓
- Empowerment and advancement of the employee: learning new skills or gaining responsibilities will empower employees ✓
- Flexible hours: can call for efficiency with work and a happier and fulfilled staff ✓
- Feeling of appreciation: hard work is recognised ✓
- Wellness Programs: feeling of value in the organisation ✓
- Open recognition: Feeling of worthiness ✓

(Suitable evaluations on how the above can motivate employees Do not allocate marks for definitions.) (2 marks per factor)

4.4 Two employees at Woolworths are constantly competing for the same promotion and recognition. Instead of working together as a team, they engage in back-stabbing and gossiping about each other. This has led to a decrease in productivity and low morale in that division. Their supervisor mostly ignores them but then sometimes threatens to dismiss them both.

4.4.1 Identify the type of conflict and substantiate your answer. (2)

Dysfunctional conflict ✓ as this conflict has led to a decrease in productivity ✓ and low staff morale ✓

4.4.2 Assess the supervisor's response to the conflict. (2)

The supervisor's response is unprofessional ✓ as he is threatening the employees regarding dismissal but is not doing anything to resolve the conflict. ✓

4.4.3 Suggest TWO ways in which the situation can be resolved. (2)

- The manager can deal with the situation as soon as it arises ✓
- Make employees feel valued and remind all employees that they all contribute to the success of the business ✓
- Ensure they understand that there are consequences for this behaviour

4.4.4 Review the process the CCMA will take to resolve this conflict? (6)

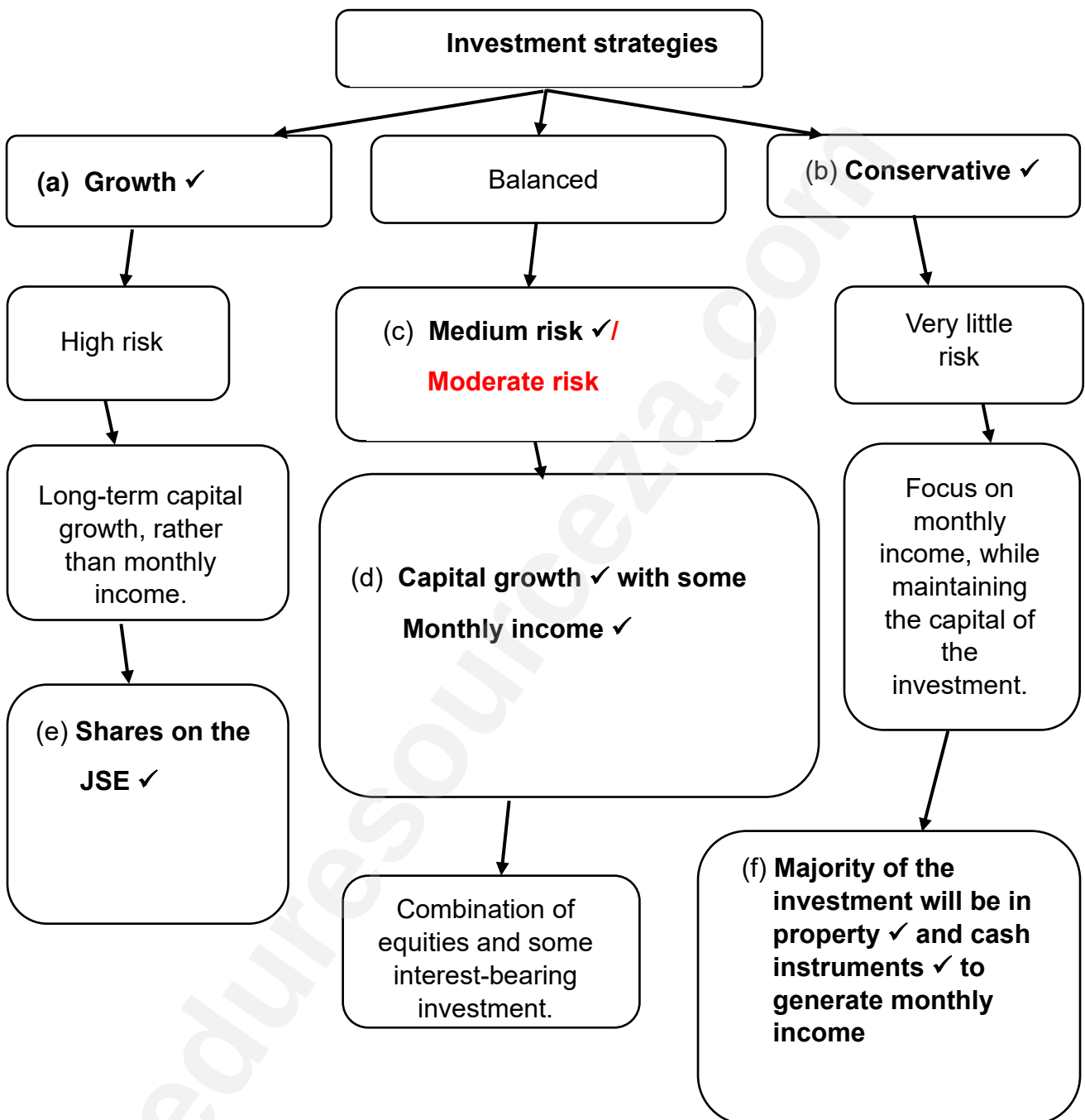
- Conciliation ✓ listen to both sides but act as an independent party. ✓
- Mediation ✓ CCMA Representative will make a recommendation on how the dispute must be resolved. Not legally binding. ✓
- Arbitration ✓ Arbitrator will issue an instruction on how a dispute must be resolved. Legally binding. ✓

QUESTION 5

[50]

5.1 Complete the following diagram.

(8)



5.2 Evaluate the investment in a business such as Food Lovers Market.

Discuss TWO reasons why it would be deemed a high-risk investment. (4)

- Huge capital is required. ✓
- Need of central space ✓
- Limited Potential for Growth. ✓ With a physical store, your customers are limited to the people who physically reach your store. ✓
- People are not spending as much as what they used to ✓, they only buy necessities ✓, equals lower profits. ✓

Also accept the risks of franchising as Food Lovers' Market are franchises:

- The cost to establish the franchise is usually very high and the franchisee then still has to pay the monthly royalties. ✓
- The entrepreneur could find it frustrating and limiting to stick to the strict prescriptions of the franchisor. ✓
- Some franchisors may not continue to give the support initially promised. ✓
- The entrepreneur who wants a challenge may become bored with the franchise. ✓
- The success is influenced by the success or failure of the other franchisees. ✓

(Accept any other reasonable answer)

(2 marks each for discussing)

(If listed 1 mark each)

5.3 Discuss how you as the Human Capital manager could explain Retirement Annuities to your employees.

5.3.1 Description (2)

Is a policy that aims to provide an income to the person when he/she reaches the age of 55 ✓. A monthly premium is paid ✓ and when the RA pays out, it will be a lump sum, combined with a monthly income ✓. The amount of money paid out when the RA matures, will depend on the premiums were paid and/or how high the premiums were ✓.

5.3.2 Risk involved in this form of investment. (2)

- The risk → depend on how and where the administrators have invested ✓ the contributions of members.
- Unfortunately, many people do not make sufficient provision ✓ → result → they cannot maintain their standard of living ✓.

5.3.3 Return that can be expected. (2)

- The ROI will be determined by the prudent decisions of the investment manager ✓ that handled and invested the contributions.
- There are no guarantees. ✓
- It is important to compare this to inflation. ✓
- ROI makes → "predictions" → they are hoping to achieve. ✓

- Be aware that most financial instruments will have administrative costs ✓ and management fees ✓ → reduce the ROI. ✓

5.3.4 Discuss why some people would not be financially secure by the time they go on retirement. Provide THREE reasons. (6)

- People wait too long ✓ before they start making provision for retirement. No one wants to save money for 20/30 years later. ✓
- People generally live longer ✓ due to good medical care ✓, and therefore, need to make provision for a longer time after 65 ✓, when they on retirement, when they will be without a salary.
- Getting older may also mean more money is needed for health care ✓. Additional provision should be made for these costs.
- People don't always consider the loss of benefits ✓ when they retire. What about the loss of a company vehicle ✓, car house subsidy ✓ when retirement is reached. One would need more than last salary earned. ✓
- When people change jobs ✓, the pension built up at the previous job may be paid out ✓. People should immediately reinvest this money ✓ in the new pension fund, rather than spending it.

(Any THREE for 2 marks each if discussed)

5.4 Critically evaluate how the Compensation for Work-related Injuries and Diseases Act (COIDA) impacts on the risk management program at Food Lovers Market as a form of insurance for Food Lovers Market and their employees. (6)

- COIDA requires that Food Lovers Market take out Compensation on behalf of their employees. ✓
- To protect employees against injuries/death at work. ✓
- COIDA protects the employer from claims made against him/her by the employee. ✓
- Compensation is provided to the employee or his family. ✓
- Medical expenses ✓ and loss of earnings are covered. ✓
- The fee is paid to the Compensation Commission annually ✓ and is based on the employee earnings ✓ and the risk associated ✓ in their daily duties.

(Consider any other relevant point COIDA)

(Any 3 facts x 2 marks each = 6 marks)

5.5 List any THREE factors that the insurance companies will take into consideration when determining the premium on insurance of the delivery bikes used to deliver purchases to customers. (3)

- The age of the designated driver ✓
- The gender of the designated driver ✓
- The market value of the vehicle ✓
- The type of vehicle ✓
- The level of crime in the area that the vehicle is driven/parked ✓

(Any other relevant points)

(3 facts x 1 mark each)

5.6 Provide THREE requirements for a valid insurance contract. (3)

- Absolute good faith✓
 - Utmost honesty and requires the insured to disclose all relevant information that may affect the risk
- Insurable interest✓
 - A person has insurable interest if it can be proved that he/she will sustain a financial loss if a certain event takes place.
- Contractual capacity✓
 - Person must be of legal age and sound mind.

(Any other relevant can be awarded marks)

5.7 It is essential that Food Lovers Market protects the business by taking out insurance.

Assess THREE types of non-compulsory insurance that will protect Food Lovers Market.

(6)

Fire insurance:

- Fire insurance is listed in some books as a separate insurance policy, AND will usually form part of other insurance policies:
 - Fire damage to the structure of a house or building is usually included in the insurance made compulsory by banks, when they finance a bond for the building.
 - Fire causing damage to a vehicle will be included in the vehicle insurance.
 - The content of the house or building will be covered against fire by the householder's insurance.
- The more flammable a product → thatch roof → the higher the risk → therefore the higher the premium.
- The nature of the surrounding buildings → house or business → next to a garage selling petrol → a high risk → a high premium payable.

General Business insurance / Commercial insurance

- Important decisions the entrepreneur/manager to protect the business from losses caused by unforeseen circumstances.
- *These circumstances may include:*
 - theft (shoplifting)
 - burglary (forced entry)
 - public liability (if a customer slips on a wet floor while in the shop (called liability insurance)
 - damages from fire or elements of nature.
- Insurance contracts relating to insurance for inventory (trading stock) will include an 'iron safe clause'.

Iron safe clause

Past → records of the business's stock on hand in a safe that is fireproof.

Today → back-up record off-site due to technology.

- Partial loss of income if the business cannot operate while repairs are being done → covered in a Commercial insurance policy.

Vehicle insurance

When we talk about vehicle insurance, we normally distinguish between two options:

- Fully comprehensive:
 - Means the insured's car and the other vehicle will be repaired in the case of an accident.
 - Damaged caused by fire will be covered OR if the car is stolen the insured will be indemnified
 - Expensive sound systems, laptops and other expensive items must be specified separately → to be covered by the insurance policy.
- Third-party, fire and theft:
 - The older the vehicle, the less the value. If a vehicle is relatively old, it may not be financially viable to continue paying fully comprehensive insurance, because the chances are the insurance company will write off the vehicle if it is damaged and not payout a decent value. In such as case, if the driver (of the old vehicle) is to blame for an accident that caused damage to another very expensive car, at the very least, the damage to the other car (third party) should be paid by his/her insurance company. This type of insurance also pays out if the car is stolen or damaged in a fire.

It is interesting to note that male drivers under the age of 25 are classified as a very high risk and that their car insurance premiums are usually very expensive!

Money in transit insurance

- To cover any potential losses → may occur between the business and the bank.
- Some businesses prefer not to take this risk and will outsource the transportation of the money to a third party → Coin Security company → which will definitely have this type of insurance

Fidelity insurance

- To protect the business against financial losses caused by dishonest employees.
 - If there are only one or two people in the business handling money or working with finances, the policy may be taken out to cover individual employees (their names are specified on the policy).
 - If a large number of staff members need to be covered, a floating policy may be taken out where specific positions (jobs), rather than individual people are covered.
- (Any THREE non-compulsory insurance for 2 marks each)**
(Do not accept household and crop insurance as these are not relevant to Food Lovers' Market)

5.8 Read the following extract on Checkers and answer the questions that follow.

5.8.1 Evaluate the impact on Checkers if employees are not retained. (4)

- Reduced productivity levels✓
- An additional work burden on employees who need to work harder while the new staff member settles in. ✓
- Low morale✓ when employees become aware of too many vacancies.
- A negative public perception of the business✓
- More money and time are needed to invest✓ in the retraining of new staff

members. ✓

(Any 4)

5.8.2 Discuss how the recruitment and training processes can be used to meet the Employment Equity targets of Checkers. Provide relevant examples to illustrate your answer. (4)

Affirmative Action::

- ✓ Is designed for Blacks, Coloureds, Indians, Chinese, all females and disabled people who were previously marginalised in the workplace, now get preferential treatment ✓ to ensure there is equal representation ✓ in all job categories and at all levels ✓ of the workplace.
- ✓ When looking at issues such as training, promotion and remuneration, any inequality due to past practices has to be rectified. ✓

(Explanation = 2 marks; Examples = 2 marks)

QUESTION 6

[50]

- 6.1 Differentiate between brand extension and brand stretching. Make use of examples to illustrate your answer.**

(4)

Brand extension: an existing brand is used to launch a new product in the same or related market ✓

Brand stretching: an existing brand is used as a platform to launch a product into an unrelated market. ✓

Example: Pick n Pay's white label is an extension ✓. Pick n Pay launching a banking app will be stretching the brand. ✓

(1 mark per term and another mark for the example)

- 6.2 Critically evaluate the importance of packaging as part of the product in the marketing mix.**

(5)

Packaging involves designing and producing the container or wrapper for a product ✓. Packaging contains ✓ and protects ✓ the product, but it also is used to attract customer attention ✓, to describe the product ✓, and to make the sale. Packaging also assist with the stacking ✓ of the products on the shelves or for display purposes.

(Any 5 facts)

6.3 Marketing mix

- 6.3.1 Explain the importance of Spar focusing on each of these elements as part of their marketing strategy.**

(a) Price

(3)

How much does your product/service cost? Everyone has their price and if you target a specific audience but get the price structure wrong for this particular set of buyers, you can forget about getting a desirable ROI ✓.

The price you set should reflect your customer's perceived value of your product ✓, correlate your budget ✓, and be set in a way that ensures you turn a profit ✓. Pricing has a huge impact on the success of your business, and it can impact your marketing strategy ✓, sales ✓ and product demand ✓. There are many different benefits, drawbacks and functions. And the one that you choose to implement will depend on what you're selling ✓ as well as your brand image ✓ itself.

(Any 3 facts of 1 mark each for explaining the importance of Spar focusing on Price)

(b) Promotion

(3)

It is direct marketing✓, PR✓, advertising✓, content marketing✓, or in-store pitching ✓ this is what marketers do.

Promotion means raising awareness of a brand, product or service✓ within a market✓; telling a story to encourage consumer engagement✓. Promotional strategies work on multiple levels✓. They raise brand awareness✓, increase sales✓ and generate revenue✓. Why should someone purchase from you over your competitor? How will you solve their problem or enhance their life?

(Any 3 facts of 1 mark each for explaining the importance of Spar focusing of Promotion)

6.3.2 Assess how the TWO marketing elements are dependent on each other to ensure a successful marketing strategy.

(2)

Promotion – the process of sharing my message to the target market. This message includes the price of the products/services. ✓ The price and the promotion method have to meet the target audience perceived ideas, needs in order to be successful.✓ We use promotion to communicate the prices of products, to inform my target audience and to create a desire for the products on offer. ✓

If either the price or the promotion is not received well ✓by the target market the sale would not take place. ✓

(Any other reasonable answer)

(Any 2 facts of 1 mark each for assessing how the two marketing elements are dependent on each other)

6.3.3 Suggest THREE criteria that would be used to determine the success of Spar's marketing strategy.

(3)

- Identifies priorities, prioritize resources and enable organization to select the best customer and market opportunities✓.
- Serve as the foundation for the activities that create and nurture the promise of value to the customer✓.
- Provide a direct-line-of-sight between marketing activities and investments and business outcomes ✓and results are a living roadmap that is anchored to the overall business' outcomes and focuses on customer value, growth, and profitability✓.
- The success of a marketing strategy can also be measured based on increase in customers✓, increase in volume of sales✓ and increased profit✓.

(Any 3 facts of 1 mark each for developing THREE criteria that would be used to determine the success of Spar's marketing strategy.)

6.4 Discuss how marketing influence the other business functions. (8)

Marketing has a profound impact on various business functions within an organization. Here are a few ways in which marketing influences other business functions:

Sales: Marketing activities create awareness about products and services, generate leads, and provide information that empowers sales teams to close deals. Effective marketing campaigns can increase sales revenue by attracting and engaging potential customers.

Product Development: Marketing research provides valuable insights into consumer needs, preferences, and market trends. These insights help organizations identify product gaps, design new offerings, and enhance existing products to meet customer expectations and stay ahead of competitors.

Customer Service: Marketing efforts create customer expectations and shape their perception of a brand. Effective marketing helps organizations build strong customer relationships, resulting in positive customer experiences. By aligning marketing messages with customer service efforts, companies can enhance customer satisfaction and loyalty.

Finance: Marketing activities generate revenue, and financial decisions are based on the expected return on investment (ROI) from marketing efforts. The marketing budget, which includes advertising, promotions, and other marketing expenses, impacts financial choices such as resource allocation and forecasting revenues.

Human Resources: Marketing influences the employer brand and how the organization is perceived by potential employees. Strong marketing campaigns showcasing a positive company culture, values, and opportunities can attract talented individuals, making recruitment and retention efforts more successful.

Operations and Supply Chain: Marketing activities impact demand forecasting, production planning, and inventory management. By understanding customer preferences and demand patterns, organizations can align their operations and supply chain management to ensure timely delivery of products and services.

Research and Development: Marketing insights play a crucial role in guiding research and development investments. Understanding the market and consumer needs helps organizations prioritize research and development efforts and innovate products that are in line with customer expectations.

Overall, marketing acts as a bridge that connects various business functions. It influences other functions by providing information, shaping strategies, and facilitating effective decision-making to drive organizational success.

(Any 8 facts)

6.5 False advertising can have serious consequences for both businesses and consumers.

6.5.1 Discuss the ethical and legal implications of false and unethical advertising. Highlight the relevant laws and regulations in South Africa that aim to protect consumers. (8)

Provide accurate information: Businesses should ensure that all the claims and information communicated in their marketing materials, advertisements, and product descriptions are accurate, supported by evidence, and not misleading.

Full disclosure: Businesses should disclose all relevant information about their products or services that may influence a consumer's purchasing decision.

Use testimonials and reviews responsibly: If a business uses testimonials or customer reviews in their marketing, they should ensure that these are genuine and not misleading.

Clear and understandable language: Businesses should use clear and plain language in their marketing communications to ensure that consumers can easily understand the information.

Transparency about pricing: Businesses should provide clear and accurate pricing information to consumers. This includes avoiding hidden fees or charges, clearly displaying the total cost of products or services, and being transparent if prices can vary based on specific conditions.

Avoid deceptive tactics: Businesses should refrain from using deceptive marketing tactics such as bait-and-switch, false scarcity, or misleading comparisons.

Implement verification processes: Businesses can implement internal processes to verify the accuracy of their marketing claims. This can involve conducting appropriate research or tests to ensure that claims made about the product or service are truthful and can be substantiated.

Adhere to industry regulations and standards: Businesses should comply with all relevant industry regulations, codes of ethics, and advertising standards. Staying up to date with the laws and regulations governing marketing practices in their industry is crucial to maintain transparency and avoid any legal or ethical violations.

Foster open communication: Businesses can encourage consumers to provide feedback or ask questions about their products or services. Actively addressing and responding to customer queries or concerns can demonstrate transparency and build trust with customers.

Educate employees: It is important for businesses to educate their employees about truthful and transparent marketing practices. Employees should understand the importance of accurate marketing communications and be aware of the potential consequences of misleading or deceptive practices.

(Any 8 facts)

6.5.2 Propose strategies that the business can implement to ensure truthful and transparent marketing practises. (4)

By implementing these strategies, businesses can enhance their reputation, build trust with consumers, and establish long-term relationships based on truthful and transparent marketing practices.

**(Any other reasonable strategies)
(TWO strategies fully discussed OR
FOUR strategies somewhat discussed)
(Listed max 2 marks)**

6.6 Critically evaluate how directors of a company may successfully implement the principles of good corporate governance as prescribed in King Code II. (10)

- 1) Transparency ✓ (no set of rules, who will be held responsible) ✓
 - Everybody has to know what decisions are taken and why they are taken. This is not correct → Some decisions may always be kept confidential. ✓
 - Transparency refers to decisions being taken in:
 - ◆ accordance with a set of rules which everybody is familiar ✓ with
 - ◆ and that these rules are understood by everybody. ✓
 - Transparency is of course a pre- condition for accountability ✓ - WHY????
If there is no transparency, how will it be possible to hold someone accountable for decisions taken ✓
- 2) Accountability ✓ (person taking responsibility for his/her actions) ✓
 - Accountability increases the level of confidence ✓ that stakeholders have in the business decisions taken. ✓
 - Integrity or honestly or truthfulness will be part of decision making ✓ if the person or organisation knows they will be held accountable for decisions taken. ✓
- 3) Independence
 - Means there is:
 - ◆ no conflict of interest ✓
 - ◆ no unfair influences from any stakeholder ✓ → unethical decision being taken in favour of a particular person or organisation. ✓
 - Although networking is a critical component in a person's and business' success ✓ BUT you don't want to feel obligated ✓ towards someone you have networked with.
- 4) Discipline: ✓ (The starting point is always self-discipline.)
 - In a business environment, this relates to the integrity shown by management, when important decisions are taken. ✓
 - If management does not make responsible decisions, the market will punish the business. ✓ (self-discipline. ✓)
 - When buyers of the product or investors in the business realise that management is acting incompetently ✓ or that they are promoting their own interests above those of the business ✓ and relevant stakeholders
 - Sanctions ✓ (punishing) (MARKET DISCIPLINE ✓)

- ◆ to stop using the business' products and/or services ✓
 - ◆ and possibly sell shares owned in the business. ✓
 - ◆ Lower share price ✓ → result in the collapse of the business ✓.
 - Unfortunately, as with market discipline, regulatory discipline ✓ can only be imposed, once the damage has already been done. ✓
- 5) Social responsibility ✓:
- It refers to the way in which decisions are made and policies are implemented. ✓
 - A business that follows a process of good governance ✓, will be publicly accountable ✓ because they will act responsibly ✓ when it comes to social issues such as:
 - ◆ exploitation of natural resources, ✓
 - ◆ child labour, ✓
 - ◆ paying fair salaries ✓
 - ◆ support of employees suffering from HIV/AIDS ✓
- 6) Fairness ✓ in dealing with stakeholders:
- Consider all relevant parties' interests when decisions are taken. ✓
 - Life is not always fair → Sometimes it is necessary to make a trade-off between benefiting one group of people over another. ✓
 - For example:
 - ◆ To manufacture products locally at a higher cost ✓
 - ◆ to create employment vs. ✓
 - ◆ importing the product at a lower price. ✓
 - Management decisions should always aim to serve the best interests of the business ✓ and employees ✓ and not because there is the lure of a "kick back" ✓
- 7) Responsibility (of directors) ✓:
- Promote responsible management ✓

(ANY 5 principles; 2 marks each)

(Max 2 marks for listing)

(Max 8 marks if only facts given and not explaining how compliance is ensured)

TOTAL B: 150

SECTION C

QUESTION 7

[50]

The following aspects will be considered when marks are allocated in this section:

- Format:
 - The CORRECT format must be used, i.e., business report.
 - Include an introduction and conclusion where applicable.
 - Used headings and sub-headings where appropriate.
- Correct business terminology must be used.
- Content must be sufficient to cover all aspects of the question.
- Substantiate (justify) all statements made.
- Apply to case study/context/theme.
- Problem-solve rather than just giving theoretical facts.
- Synthesise and sequence.

Guideline for marking

Format:

To:

Date:

From:

Topic:

Link:

Ethical supply chain management is a needed to ensure sustainability of the business and gain/maintain a competitive advantage.

Code of ethics lead to a more ethical culture in the business

Any other relevant links

Expected content:

- Ethics
- SCM
- Code of ethics
- Ethical behaviour
- Unethical behaviour
- Corporate governance
- King Code I, II, III, IV

Fact marks are allocated as per the rubric for:

- Naming
- Explaining/justifying/motivating
- Examples
- Strategies to solve problems
- Current affairs
- 10 additional facts – must add value to the discussion/argument(s)

No marks for the following terminology:

Woolworths
Business values
Are not just words
Foundation of the business
Give direction
Guide behaviour, actions and choices
Values are important
Measure not only performance but also how well we live up to them
Consumers are emotionally invested
Sustainable supply chain process
Boston Consulting Group (BCS)
70% of customers are willing to pay 5% more for sustainable goods. Inform customers about sustainable supply chain initiatives
Good corporate governance
Management
Leadership
Accountability
Characteristics of good governance
Ethics are important
Keep workers safe
Help trade and interactions between companies
Remain honest and fair
Better goods and services
What a company will or will not stand for
Knowing basic ethical guidelines key component of management
Independent consultant
Top management
Develop strategies
Improve corporate governance
More ethical business
Corporate governance
Code of ethics
Positively impact the business culture
Importance of an ethical supply chain.

Supply Chain Management (SCM)

Supply chain management (SCM) or Procurement

- Includes all activities that are performed to deliver the:
 - ✓ Right product or service
 - ✓ to the right customer
 - ✓ at the right time
 - ✓ at the right place
 - ✓ and the most reasonable cost.
- Supply chain management (SCM) refers to:
Sourcing → Processing → Manufacturing → Transporting → Storing → and distributing products or services FROM when the raw materials are extracted until the final product is sold to the final customer.
- The aim of Supply chain management (SCM) is to:
 - ✓ Oversee the flow of materials and information from the supplier to his final customer.
 - ✓ The more effective the control of the material or products in the business, the less capital has to be invested in stock.
- Ethical supply chain management is becoming more important:
 - ✓ Businesses expect their suppliers to be ethical by not making use of child labour.

Ethics, Professionalism and Social Responsibilities

Ethics

Ethics refers to moral principles or values that are held by society to describe what is right and wrong. "How do I act when nobody else knows what I am doing?"

Ethical Theories:

- ✓ Consequence-based theories
When you witness bribery within your department.
- The outcome (consequence) of the action will determine if the action is ethical or not.
- ✓ Principle-based theories (predetermined rules)
Always unethical to cheat
- The person's principles, values, morals or *ingrained set of rules about what is right or wrong*, will determine *if the person sees the action as ethical or not*.
- ✓ Utilitarian theory:
Train and the large man
- The decision of ethical or unethical action is based on what is best for the greatest number of people.
- Influenced by your cultural and religious background.

Business ethics:

- Not only the → business owners' responsibility BUT every employee.
Professionalism

The main criteria for professionals are:

- expert and specialized knowledge in the field
- excellent skills within the profession
- high quality of work
- high standard of professional ethics, behaviour and work activities

Ways in which professional, responsible, ethical and effective business practice should be conducted (Good business practice) (12 principles)

Principle 1:

No business should be started at the expense of someone else.

(The aim of a business should not be to harm another person's interests in order to make profit for the shareholders/owners)

➤ Example: "Fidentia scandal" took R694m of retirement fund from the "Living Hands" trust for widows and orphans so that it could be re-invested. While they were waiting for monthly amounts to be paid to them, the executives didn't invest the money but used it to pay themselves huge salaries.

Principle 2:

Fair wages should be paid to both executives and employees.

➤ Example: Workers must not be exploited with low salaries just because it is hard to find a job.

Principle 3:

Tax should be paid regularly.

➤ Example: Businesses and individuals should not abuse the tax system or submit false tax returns.

Principle 4:

Hire honest, trustworthy accountants with good reputations.

➤ Example: No business can afford to have accountants who are known for their unethical and unprofessional practices.

Principle 5:

Staffing and other processes should be open and transparent.

➤ Example: Employees should be aware of the employment policy of the business.

Principle 6:

Draw up a Code of Ethics.

➤ Example: Employees can be made aware of what the company stands for and "buy into" the organisation's expectations.

Principle 7:

Managers must set the tone and example.

➤ Example: The senior members of the company must act as role models by ensuring that all their actions and decisions are in line with the Code of Ethics of the business.

Principle 8:

On-going development and training for all employee

➤ Example: Seminars on business ethics should be held for employees to help them understand the importance of the ethical work culture of the organisation.

Principle 9:

Performance management systems should be set in place.

➤ Example: Performance should be evaluated against a particular job description, which has been discussed and agreed upon between the manager and the employee.

Principle 10:

There must be adequate internal controls.

- Example: The monitoring of the systems that enforce the Code of Ethics should be an on going process in an organisation.

Principle 11:

There should be honesty in all relationships and transactions in the business.

- Example: Businesses must monitor the honesty of transactions and the actions of employees by creating and implementing systems that protect customers, suppliers and shareholders.

Principle 12:

The environment should be protected.

- Example: Implement laws protecting the natural environment.

Some unethical issues in the corporate world

1) Employee conflict of interest may occur on many levels such as:

- A moral conflict:
Medical personnel being required to do an abortion → against their religion
- A conflict of interest where:
 - Management granted tenders to his/her family member.
 - if someone is part of the recruitment and selection panel and he/she fails to disclose that one of the applicants is a friend or family member.
 - Directors is approached by a supplier to be part of that Board of Directors.

2) Bribes and corruption

BRIBE

When someone is offered a reward to give a third party an unfair advantage to which he/she/the business is not entitled, it is a bribe.

- A bribe does not have to be in the form of money (*smoothing payment*):
 - be a gift,
 - an offer of employment,
 - a promotion or any other favour.

CORRUPTION

When someone in a position of power, abuses this power for personal gain, it is corruption.

- This may include:
 - receiving a bribe,
 - giving a kickback (indirect bribe) to a supplier,
 - abusing an official position for personal gain.

3) Inappropriate gifts may be:

- Inappropriately large sums of money or gifts → “Bribes”
- Receiving or offering compensation for contracts → “kickbacks”
- Linked to sexual harassment → a senior male employee giving married female employees jewelry.

4) Sexual Harassment may be defined as:

- Unwelcomed and uninvited sexual advances, both physical and/or verbal, normally from an authority figure to a subordinate.
- According to the above mentioned code, examples of sexual harassment may include:
 - Unwelcome physical contact
 - Verbal conduct such as:
 - ✓ sex-related jokes,
 - ✓ unwelcome enquiries about a person's sex life
 - ✓ unwelcome whistling/body language directed at a person
 - Non-verbal conduct such as:
 - ✓ sexual gestures,
 - ✓ indecent exposure
 - ✓ or display of sexually explicit pictures and objects
- When a more senior employee promises a reward in exchange for sexual favours.
- Every business should have:
 - ✓ a clearly defined policy on sexual harassment,
 - ✓ the procedure to follow should the employee feels he/she is the victim of sexual harassment
 - ✓ the penalties for being found guilty of this offence.

5) Unauthorised payments (white collar crime)

- may include, but are not limited to:
 - ✓ Fraudulent invoices or payment requisitions
 - ✓ Forged signatures
 - ✓ Unauthorised electronic payments
 - ✓ Skimming accounts (transferring small, seemingly insignificant amounts from customers' accounts on the assumption that they will not notice)

6) Taxation

- We differentiate between tax avoidance and tax evasion.
 - Tax avoidance
 - ✓ is legal and ethical, because the business finds legal ways to reduce the tax burden, i.e.
 - deducting legal expenses before the taxable income is calculated.
 - Tax evasion
 - ✓ Is illegal because the business does not declare all its income and lies about expenses in order to pay less tax.

7) Employment / labour issues

- There are a large number of issues that can be discussed under this heading, namely:
 - ✓ Employees abusing sick leave
 - ✓ The abuse of the internet or email may include:
 - Employees who visit porn sites.
 - Employees who make confidential information available to people who should not have access to the information.
 - Spread rumours or other damaging information about the business.
 - Spending work time on Facebook or other social media sites
 - Spending time on personal emails during work hours

- Taking business stationery home for private use
- Verbal abuse of staff members by a manager or verbal abuse of a colleague or manager by an employee.

8) Unethical marketing (Unfair advertising)

- The public expects the business to be ethical when advertising products/services.
- Advertising Standards Authority of South Africa (ASA) make sure that businesses act in a legal and ethical manner when they advertise their products/services is reviewed.
- The following is considered to be unethical:
 - Materialism, where false needs are created, such as business advertising liquor to rehabilitated alcoholics.
 - Giving products deceptive names, e.g. calling a pizza a "Slimming meal".
 - When the business sells second-hand goods as new goods.
 - Any competitive advertising is illegal in South Africa.
 - Using unacceptable language.
 - Discriminating against the disabled or being racist.

9) Pricing of goods

- Price fixing occurs when competitors agree to charge the buyers a predetermined price.
- Free market economy → keeps prices low and quality high.
- If businesses collude to fix the prices of products, it is unethical and
- The Consumer Protection Act (CPA) makes it illegal to charge more for products in rural areas than in urban areas without good illegal.
- The Competition Board may impose hefty fines.
- Directors may even be held liable → face jail time.
- justification.

10) Insider trading

- Is the illegal practice of buying and selling shares on the stock exchange when an "insider" has access to confidential information.

11) Piracy

- The unauthorized and illegal duplication of products protected by patents or copyrights.

12) Counterfeiting and Bootlegging:

- Counterfeiting → is the act of copying or imitating and trying to pass it off as the original → "Nike shoes"
- Bootlegging is the illegal distribution of a product, normally alcohol.

Ethical & unethical behavior in different spheres of society.

1) Ethical behaviour in the world of Business and Finance:

- Every business needs a Code of Ethics.
- A Code of Ethics will a set of guidelines and rules that will improve business honesty and integrity.

Reasons why a Code of Ethics is important:

- It communicates the ethical vision of the business and covers issues that govern day to day behaviour.
- It creates a common framework for all business decisions (know what to do and what not)
- The code sets out the correct procedure required for the business and employees in different situations.
- The code will spell out the consequences of unethical behaviour.
- It helps to protect a business if an employee breaches the code.
- It will help new employees to understand what acceptable behaviour is and what will not be tolerated.
- When the business operates in the global arena, it helps management and employees to understand acceptable practice within the organisation, regardless of where in the world the business operates. The ethical standards and values may differ between countries
- It stipulate what the acceptable behaviour is when conflict of interest arises in the work situation.
- Gives the business the opportunity to create a positive image of the business with the public.
- May also be used to guide the business and employees regarding the importance of Corporate Social Responsibility (CSR).

2) Ethics in Government

- Government says it is implementing appropriate policies to prevent corruption.
- National Anti-Corruption Forum (NACF) → Fight corruption.
- Code of Conduct for the Public Service that governs the behaviour of civil servants.
- Ethics sub-committee that developed the Code of Conduct for Members of Parliament.

Examples of ethic and unethical behavior in different sector in the workplace		
Individual level	Private Sector	Public Sector
• To cheat on an expense account • To call in sick when one is not sick • To accept a bribe • Plagiarism	• Auditors and accountants have often been found guilty of tax evasion. • Price-fixing → in the construction industry → FNB Stadium in Soweto	• Government officials → act in their own best interests rather than those of the country. 'Travelgate' scandal, where up to 100 members of Parliament, cabinet ministers → were implicated in fraudulent travel claims → over R30 million.

3) Ethics in the international market

- Ethical standards between different countries differ drastically.
 - Some countries child labour and even slave labour are acceptable.
 - It is way too easy for businesses operating in countries where these issues are to look the other way and justly claim "we are not guilty".
- However, one incident of unethical action is one too many!

- Perhaps it is time for some food for thought: Are businesses, for example, innocent of unethical behaviour if they allow any of the following to take place in their supply chain?
 - In 1999, De Beers, the South Africa diamond mining company was accused of using blood diamonds bought from rebels in some African countries. It is called blood diamonds because employees are kept captive and forced to work in order to fund illegal war activities. Campaign to keep these so called "conflict or blood diamonds" from being used in any jewellery.

Code of Ethics versus Code of Conduct

Code of Ethics

- ✓ A Code of Ethics is an umbrella concept defining the morals, principles and values under which an organisation operates.
- ✓ e.g. Health Professions with the preservation of life and dignity.

Code of Conduct

- ✓ A Code of Conduct is a more specific concept, regulating the expected behaviours for proper business practice.
- ✓ E.g. → honouring contracts, treating staff and clients with respect.

The relationship between management ethics and social responsibility (corporate governance)

- 1) The concept of Corporate Social Responsibility (CSR)
 - Can be described as an on-going commitment by businesses to behave in an ethical manner by contributing to the economic and social development of employees and the community at large.
 - Showing people the "human side of your business".

Some ideas for a CSR program may include:

- Sponsorship programs
- Educating people on how to save energy and water
- Better use of natural resources
- Recycling and the use of recycled materials
- Providing training to employees and their families
- Improved working conditions
- Becoming involved in the community's activities by providing health awareness programs or community literacy programs.

2) The implications of CSR:

2.1 *Implications for the business*

- ✓ CSR must be more than simply complying with certain requirements
- ✓ CSR is about adopting a responsible attitude towards all stakeholders, and should be ingrained in the their corporate culture.

But who are these stakeholders?

- Employees:
By improving the quality of life for employees and their families, the business will be rewarded with motivated employees who have a higher morale, less absenteeism and a lower staff turnover.

○ Customers:

Customers take note of those companies/individuals who give back to their communities
→ business the competitive advantage.

○ Suppliers:

CSR makes a business reputable and credible and other businesses will be more inclined to do business with such an organisation.

○ The local community:

By improving the standard of living of the people in the community, the business will benefit in the long run.

○ Government;

Will be less likely to enforce CSR through legislation if businesses voluntarily become involved.

What can the business expect to gain from CSR?

- Media attention and positive publicity
- A better functioning society (addresses some of the socio-economic problems)
- Making a sustainable difference in the lives of people
- Scoring more points on the JSE SRI if the business is listed (JSE)
- An image of the business as one with a sound Corporate Governance record
- It unites team members in a common aim to achieve above their official job.

Arguments for and against Social Responsibility/Social Investment

Some of the arguments in favour of CSR may include:

- If the business does not get involved in assisting in the solving of social problems → SNOWBALL → ultimately have a detrimental effect on the business
- Expertise and resources to deal with socio-economic problems already exist in the organisation → lend a helping hand where they can.
- If the corporate sector gets involved in CSR → Government will enforce the issue through legislation.
- CSR can help to promote the image of the business and gain goodwill → by sponsoring sports events.
- CSR is not only about 'good deeds' but about making a difference through job creation and improving the general standard of living of the community.

Some of the arguments against CSR may include:

- Providing goods and services → is seen as already being their social responsibility.
- Shareholders are the only real investor's → only interested in PROFIT → why should they spend money if there will be no real benefit in terms of Return on Investment → only gain positive public exposure.
- Employees are remunerated according to how well the business perform → CSR distracts them from their real responsibilities.

2.2 Implications for the community

- ✓ No business exists in isolation.
- ✓ Business must understand its impacts on the wider society.
- ✓ Positive spin off for both the business and the community.
- ✓ Benefits from the community's point of view:
 - Less pollution results in healthier people
 - More skills lead to less unemployment which may contribute in:
 - a higher standard of living,

- less crime and
- a more productive society.
- Better control over HIV / AIDS due to education
- Feedings schemes make better education possible.
- Sponsorships of sporting event and bursaries to students.

JSE Social Responsibility Index (JSE SRI)

- The JSE SRI was launched in 2004 with the intent and purpose to:
 - Identify the companies listed on the JSE that focus on good governance and that focus on environmental, social and economic sustainability in their reporting
 - Measure the policies and procedures of companies that are listed on the JSE against globally acceptable CSR standards
 - Give investors a non-financial standard to use as a tool when making investment decisions
 - Promote responsible business practice in South Africa and beyond
 - The indicators of performance used by the JSE SRI are:
 - ✓ Environment:
 - Reduce negative environmental impact
 - Promote awareness of environmental impact
 - Working to use natural resources in a sustainable manner
 - Demonstrate a commitment to social sustainability
 - Treat all stakeholders with dignity, fairness and respect
 - Develop and empower employees and the community
 - ✓ Society:
 - Demonstrate a commitment to social sustainability
 - Treat all shareholders with dignity, fairness and respect.
 - Develop and empower employees and the community.
 - ✓ Governance:
 - Maintain good corporate governance practices
 - Aim for long-term growth and sustainability by managing risks in the macro economic environment.
 - Promote positive social, environmental, ethical and economic activities.
 - ✓ Management of climate change:
 - Reduce carbon emissions and climate change
 - Benefits
 - A company that is perceived to be socially responsible may use this as a competitive advantage.
 - Scoring high on the SRI, shows to shareholders and potential shareholders that the business is accountable and transparent in its dealings.
 - A good performance on the JSE SRI could have a positive impact on the financial performance of the business.

GRI (Global Reporting Initiative)

Intent and purpose:

- Definition: The GRI is a non-profit organisation that promotes reporting on sustainability issues through the creation of a Sustainability Reporting Framework. This framework is used worldwide to promote transparency.

Benefits:

- It provides guidelines to businesses to determine their impact on economic, environmental and social fronts.
- It is an international framework that compares apples with apples.

Corporate Governance and the founding principles of the King reports

1) Introduction

- ☐ No person can use the excuse of "I did not know" when the law is broken.
- ☐ It is A RULE that General Management and all employees fully understand the legal implications of their actions.

Corporate governance definition:

Set of rules and the processes that are used by Top Management to direct and control the business.

AND it means:

Corporate governance provides a framework and control measures to look after the bottom line of the business, but also to consider the interests of all stakeholders in the business.

These stakeholders may include: management, shareholders, customers, suppliers, government, the community as a whole and the environment.

Corporate Governance is responsible management par excellence!

Best of its kind

2) The King Committee and reports

Founded in 1992

Aim: Explicitly to:

- clarify the concept of Corporate Governance and
- how it can be implemented in the South African context.

3) The Kings 1 Report

Focused on:

- Recommended standards of conduct for companies listed on the JSE
- State-owned businesses responsibilities towards citizens in the societies within which they function.
- Triple Bottom Line reporting or (Integrated Reporting) was introduced as a requirement for management.

It was expected that management should not:

only focus on shareholders (profit) as an interest group,

BUT

that all stakeholders should be considered when strategies are formulated and implemented

AND

consideration should also be given to the consequences of decisions for :

- o society (people) and
- o the environment (planet).

4) Kings 11 Report

Published in 2002

Describes the seven principles of good Corporate Governance:

1) Transparency (no set of rules, who will be held responsible)

Everybody has to know what decisions are taken and why they are taken. This is not correct → Some decisions may always be kept confidential.

Transparency refers to decisions being taken in:

- o accordance with a set of rules which everybody is familiar with
- o and that these rules are understood by everybody.

Transparency is of course a pre- condition for accountability

WHY???? If there is no transparency, how will it be possible to hold someone accountable for decisions taken?

2) Accountability (person taking responsibility for his/her actions)

Accountability increases the level of confidence that stakeholders have in the business decisions taken.

Integrity or honesty or truthfulness will be part of decision making if the person or organisation knows they will be held accountable for decisions taken.

3) Independence

Means there is:

- no conflict of interest
- no unfair influences from any stakeholder → unethical decision being taken in favour of a particular person or organisation.

Although networking is a critical component in a person's and business' success BUT you don't want to feel obligated towards someone you have networked with.

4) Discipline: (The starting point is always self-discipline.)

In a business environment, this relates to the integrity shown by management, when important decisions are taken.

If management does not make responsible decisions, the market will punish the business. (self-discipline.)

- When buyers of the product or investors in the business realise that management is acting incompetently or that they are promoting their own interests above those of the business and relevant stakeholders
- Sanctions (punishing) (MARKET DISCIPLINE)
 - o to stop using the business' products and/or services
 - o and possibly sell shares owned in the business.

Lower share price → result in the collapse of the business.

Unfortunately, as with market discipline, regulatory discipline can only be imposed, once the damage has already been done.

5) Social responsibility:

It refers to the way in which decisions are made and policies are implemented.

A business that follows a process of good governance, will be publicly accountable because they will act responsibly when it comes to social issues such as :

- exploitation of natural resources,
- child labour,

- paying fair salaries
- support of employees suffering from HIV/AIDS

6) Fairness in dealing with stakeholders:

Consider all relevant parties' interests when decisions are taken.

Life is not always fair → Sometimes it is necessary to make a trade-off between benefiting one group of people over another.

For example:

- To manufacture products locally at a higher cost to create employment vs.
- importing the product at a lower price.

Management decisions should always aim to serve the best interests of the business and employees and not because there is the lure of a "kick back"

7) Responsibility (of directors):

Promote responsible management

King III elaborates further on the duties and responsibility of directors.

The Board of Directors is the key performance driver of the success of the company.

They represent the shareholders

The shareholders has:

- ☐ high expectations of from the directors
- ☐ to "do the right thing" as they are in a position of trust.
- ☐ In the past a director's main function was strategic planning
- Now
- ☐ The directors are accountable for wrongdoing within the company → because their position of trust had often been abused.
- ☐ For example: A number of the directors had to pay heavy fines for not acting in the best interest of the business, and for selfishly promoting their own interests.

Some of the responsibilities of directors can be summarised as follows:

- Directors must act with skill and care when formulating guidelines, policies and procedures.(within our laws)
- They must act in good faith and honesty in terms of what they believe would be in the best interest of the business and relevant stakeholders.
- The must try to pre-empt risks and put proper risk management procedures in place.
- Ethical leadership is non-negotiable.
- Audit committees should be established to monitor finances and the use of responsible technology.
- Ensuring Integrated Reporting (Triple Bottom Line Reporting) and the disclosure of relevant information is important.

This is done when a holistic view is given on the company's :

financial performance within the context of sustainable social and environmental development.

Kings 111 Report

Released on 1 September 2009 King III

Focused on additional responsibilities of directors.

King III applies to all businesses, regardless of whether it is a public, private or non-profit business.

The directors may be liable in the case of misrepresentation.

The focus is on "Apply or Explain" where the Board of Directors have to motivate why they are not implementing the King report's recommendations.

The business' Audit Committee has to ensure that they obtain an external opinion to verify the degree of sustainability indicated in the integrated report.

There is a bigger emphasis on Independent directors (to ensure the Independent directors are really independent).

Independent Audit Committee will overrule the Board of Directors when there is conflict between the decisions of the Board and the Independent Audit Committee.

TOTAL C: 50

GRAND TOTAL: 300