BUSINESS STUDIES: PAPER II

MARKING GUIDELINES

Time: 2 hours

100 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

- The following aspects may be considered when marks are allocated in this paper:
- Format:
    – The **CORRECT** format for each question must be used, i.e. Business report.
    – Where applicable, include an introduction and conclusion.
    – Use headings and sub-headings where appropriate.
- Terminology: Correct Business terminology should be used.
- Content: Must be sufficient to cover all aspects of the question.
- Substantiation: Justification for statements made.
- Application to case study/context.
- Creative problem solving rather than just giving theoretical facts.
- Synthesis and sequencing.

QUESTION 1

PART A   **CONFLICT**   **(maximum 35 marks for Part B, then Part A is marked to a maximum of 15 marks)**

DEFINITION OF CONFLICT

Wherever there is a clash of interest or potential for disagreement relating to facts or assumptions, there may be conflict. Unless this conflict is managed and resolved, it could cause harm to the business.

TYPES OF CONFLICT

FUNCTIONAL VS DYSFUNCTIONAL CONFLICT

Conflict is not always bad, but could in fact spark creativity, allowing people to develop and grow. It may even lead to change and improve the productivity in the enterprise. Whether conflict is good or bad, will, however, be determined by how the emotions surrounding the conflict are handled.

However, if the conflict is not managed to the benefit of all, it may distract from critical issues and lead to poor quality decision making.

REASONS FOR CONFLICT

There are numerous reasons for conflict and to pretend to be able to draw up an all-encompassing list is unrealistic. We attempt here to look at some of the most obvious reasons for conflict in a-business environment.

1. **Change**

   Proper change management will help to increase the chances of survival of undertakings operating in the new economy. The so-called new economy can be defined as a situation where revolutionary changes are experienced in terms of innovation in technology, globalisation and knowledge management. The management of these changes may be the difference between businesses that will succeed and those that will perish.

   There is, however, (almost) always resistance to change. This resistance often leads to conflict.

2. **Inclusivity and cultural diversity**

   In South Africa we have many different cultures and it is important to remember that we have to accommodate all of these in the workplace. Unfortunately these cultural differences may lead to conflict situations – often because of ignorance.

   One also has to be aware of the danger of stereotyping. Despite having warned against stereotyping, we have to acknowledge that certain cultures in a country do have a very distinct culture and may require a thorough understanding by all involved

   In this regard we can simply look at the African culture of Ubuntu vs the more Western culture. When entering business transactions or negotiations in the workplace it is important to keep in mind that some of these differences may lead to conflict situations if not taken into account.

Ubuntu	Western culture
Establish social trust first – 'I am because we are'	A 'let's just get down to doing business attitude' often prevails
Personal relations and goodwill is valued	The emphasis is on performance and expertise
Negotiations often slower and rituals may play a role	Time is money and we need to conclude negotiations as fast as possible to start negotiating the next transaction

3. **Lack of or poor communication**
   If employees are not informed about decisions or not sure what to expect next, they start to rely on the grapevine (rumours) which is not always reliable. Conflict is a result of uncertainty.

   Uncertainty regarding expectations, such as poorly defined job descriptions or inconsistent actions from management will most definitely lead to conflict.

   Poor communication may be the result of poor listening skills. People sometimes listen but they do not hear and this results in misunderstandings.

   Communication barriers such as an organisational structure that is too hierarchal could also contribute to conflict. A poorly defined organisation structure on the other hand may lead to jurisdictional ambiguities (uncertainty regarding what is allowed) such as who may discipline a worker. Any other barrier to effective communication will also probably lead to conflict between role players in the business.

4. **Resource allocation**
   Insufficient resources or unequal distribution of resources to perform the task will cause stress amongst employees. This 'fighting' for resources is a structural reason for conflict in an organisation.

   Interdependence in the organisation is related to resource allocation. If for example the purchasing department has to wait for the financial department to allocate funds needed to buy stock that is required in the retail process, this interdependence will mean a delay in one department that will have a ripple effect of conflict throughout the organisation.

   Skills and abilities are also classified under resources. If a manager expects an employee to perform a task that an employee is not capable to perform, it will lead to problems in the workplace.

5. **Personalities and emotions (Including leadership and management styles)**
   All people in the workplace are unique. Sometimes different personality types thrown together in close proximity in the workplace may contribute to conflict. Different personality types also react with different emotions to situations.

   Type A personalities are for example usually workaholics that have extremely high expectations of themselves and others, they are impatient and unhappy about even small delays in deadlines. Type B personalities on the other hand are usually easy-going with no real time urgency.

6. **Values and ethics – Perceived or real**
   Values and ethics are personal sets of beliefs that guide actions or describe a preferred manner in which to handle a situation. Values and ethics are, however, closely linked to culture and religion and will therefore differ between people.

   Sometimes perceptions are more important (and real in the person's mind) than reality. People often believe what they perceive to be true even if it is not true and this may lead to unnecessary conflict.

7. **Inner conflict**
   Conflict is not only external. We are all human, and as such, bring our past experiences, issues, beliefs and morals into every situation. Often, our perception of a situation is far more important (and influential) than the reality. That is why two people can attend the same event, e.g. year end function, and have two totally different reactions to it. One will see it as disorganised and the crowd as unruly; the other will describe it as having a great vibe and the employees as having a lot of spirit.

Some of the issues that can lead to inner conflict:
- Jealousy
- Feelings of inferiority, being used as a scapegoat
- Need to control or need to impress people (seeking constant approval)
- Personal morals, beliefs and ethics
- Oversensitivity and low self-esteem

8.   Poor teamwork
- Role conflict
- Role overload
- Role ambiguity
- Lack of synergy

9.   Labour related issues leading to strikes

10.   Conflict with stakeholders:
- Shareholders – poor dividends, voting against Director at AGM
- Trade Unions – strikes
- Customers – voting with their money
- Suppliers – not delivering on time, etc
- Government – changes in legislation
- Competitors
- Franchisor and franchisees

WHAT SKILLS SHOULD A MANAGER HAVE AND WHAT TOOLS CAN BE USED TO MANAGE CONFLICT? (Suggestions)

Managers and employees alike can and should be coached to change behaviour in order to handle conflict better. In order to change, employees in the organisation can, irrespective of their level in the business, use skills and tools to transform a conflict situation into an opportunity through constructive conflict resolution.

1.   **Ability to deal with change**
     Change is often one of the key contributors to conflict. Managers at all levels should be able to cope with change and help their employees deal with change.

     This can be done by understanding how people deal with change and helping them to overcome anxieties related to change.

     People's first reaction to change is usually resistance. Communication to motivate the change and training can be used to overcome or reduce resistance to change.

2.   **Tolerance regarding inclusivity and cultural diversity**
     People should be exposed to and educated regarding cultural diversity to create tolerance for differences. Keep background information in mind when dealing with different people. For example there are huge cultural differences regarding time and interpersonal space to name but two potential sources for conflict. Do you think the newly appointed CEO (from UK) of Pick n Pay South Africa will understand or appreciate it when the meeting starts twenty minutes late and the excuse offered is 'African time'?

3.   **Communication skills**
      A manager should have the ability to communicate information in a clear and understandable manner. The success of the communication is often dependent on the degree of trust invested in the relationship. Without rapport the chances of successful communication diminishes radically.

      Regular meetings to get feedback and get suggestions from employees can be useful communication tools. As an alternative to meetings to get input from employees, a suggestion box can be implemented. Meetings can also be used to communicate new initiatives and motivate changes that will be implemented. Notice boards, newsletters and memorandums are also forms of written communication in an organisation.

      Regular written reports regarding proposed plans, the status of current activities and accomplishments can help management to pre-empt conflict situations that may cause problems.

      An important element of communication is listening to the reason for the unhappiness; acknowledging what is being said, and then trying to understand why the person is feeling this way before responding. Summarising and paraphrasing before responding are good tools that may improve the communication process.

      Negotiation, mediation and arbitration are methods that can be used to reduce or eliminate conflict by involving a third party to improve the communication process.

4.   **The ability to think and act strategically**
      The starting point of strategic planning is to develop a shared vision and mission to help employees to understand the purpose and direction of the organisation. The system approach to strategic planning helps the organisation to link its internal and external environments and improving performance by reconciling available resources with changes in the external environment.

      Linking the internal resources with the external environment requires an environmental scan using tools such as a SWOT analysis or a value chain analysis in order to identify the key success factors and competitive advantage of the undertaking. The business can then formulate a strategy that will assist all employees to understand the long term goals of the business.

      Although strategic planning takes place at top management level it is important to get input and feedback from lower levels as well to ensure buy-in and understanding of the process. If this can be achieved, a huge obstacle would have been overcome in managing potential conflict in the organisation due to inefficient resource allocation.

5.   **Emotional intelligence to deal with different personalities and emotions**
      A good starting point of resolving conflict due to personalities and emotional issues is to keep emotions in check. This does not imply a person has to ignore his/her emotions or pretend they do not exist, but rather that a choice is made on how to vent those emotions.

      The manager should acquire the skill to steer the conflict in such a manner that people focus on the problem at hand and not get abusive towards the other party. When emotions run high these two issues (the problem vs the other person) often become entangled. It is important that the origin of the conflict situation remains the focus and that the conflicting parties don't get side tracked with non-pertinent issues in this emotional debate.

One tool that can be applied to separate the person and the problem is to ask the question 'why' in order to understand the reason for the underlying problem. Asking the conflicting party to explain the problem will help understanding the root rather than allowing people to get carried away justifying their emotions.

Asking the question 'why' may also offer the opportunity to ask 'how do you propose we solve this problem in a fair manner?' This once again focuses on the problem and prevents people attacking one another purely based on emotions.

6.   **Values and ethics – Perceived or real**
       Training and open communication can help to overcome conflict due to a lack of understanding and help to encourage flexibility and create empathy that can help people to accommodate and even celebrate differences.

7.   **Resolving inner conflict**
       The first step is to identify it as such. A problem cannot be addressed unless it is exposed. It is also important to refer the person to the correct department – they may need the HR department to resolve (or explain) a salary or promotional issue, a manager to listen to their concerns or a counsellor to work through personal issues with them. The extent of the intervention will depend on the intensity of the problem, and the effect it is having on their productivity in the workplace, as well as the enterprise's HR policy: some businesses have both counselling services and practical help (e.g. HIV/AIDS clinics, feeding schemes, day care centres) to assist their employees to solve personal problems. Others deal only with direct work related issues. Either way, it needs to be considered as a factor in the normal conflict resolution process.

MANAGEMENT OF CONFLICT (HOW PEOPLE DEAL WITH CONFLICT)
(Additional suggestions)

1.   **Stimulating functional conflict – Devil's advocate**
       Conflict can stimulate creativity and prevent 'group think' in teams. Group think occurs when team members do not want to criticise one another because of their desire to get along. This then hampers critical thinking.

       When a person assumes the role of Devil's Advocate he criticises the proposed plan of action in order to encourage analytical thinking and to test the proposed plan of action. This deliberate introduction of criticism is known as programmed conflict and is used in order to elicit debate and different opinions.

2.   **Negotiation and integration to solve problems**
       Integration is one possible method of handling dysfunctional conflict. It is a suitable approach to resolve conflict that exists due to misunderstanding, but is not suitable when the root of the conflict lies with differences in value systems. People are usually just not prepared to re-negotiate their value systems.

3.   **Smoothing**
       This is mostly a temporary method of solving a conflict situation as differences are ignored and the focus is placed on what people have in common. The conflict situation is 'smoothed over' but if it is a serious problem it may actually make the situation worse. The short term solution to the problem may cause the conflict to surface again in the future.

4.   **Forcing**
       In a situation of forcing, a person in a position of authority forces his solution to the problem on the subordinate. This autocratic style does not encourage participation in the problem-solving process and often leads to resentment.

5. **Avoidance**
   The problem is avoided by pretending it is not there or ignoring it, and is mostly used when the perception exists that it is simply not worth the effort to argue. This approach is suitable for trivial issues, but with a serious situation, it may worsen the conflict over time.

   Another form of conflict avoidance is if someone else is sent to deliver a message rather than to confront the situation. The issue is not resolved but just (often temporarily) postponed.

6. **Compromise**
   This democratic style of handling conflict is found in a situation where there are opposing opinions on an issue but both parties have equal power. It is a situation of mutual give-and-take but if it is not managed well it may lead to a situation where deadlines are not met because it is easier to simply withdraw or give in. If one person is constantly expected to yield or compromise he/she may decide it is better to (at least psychologically) withdraw from the situation. This approach may even worsen the conflict over time as it may cause conflict within the person that constantly has to compromise and accommodate others.

   In a situation where negotiation fails, it usually calls for the dispute to be resolved through anything from facilitation to arbitration, using a third party.

7. **Conflict Management through Third Party Interventions**
   Conflict that is not handled appropriately may become destructive. Sometimes it is possible for the dispute to be settled between the parties involved, but if the issue cannot be resolved there are easier and more cost effective ways than to battle it out in court. An alternative method to resolve the conflict may be to involve a third party to assist in this process but it is important that both the conflicting parties feel they can trust the integrity of the third party.

   7.1 The CCMA (Commission for Conciliation, Mediation and Arbitration) is an independent organisation that acts as a dispute resolution body that promotes cooperation between employers and employees. Any dispute that can be settled at this level prevents labour unrests such as strikes and lockouts and promotes productivity in the economy.

   Although it is possible to use an internal person (part of the organisation) as a third party if the conflict situation exists in the business, it is often more productive and viewed as more fair to use an outsider.

   Facilitation involves a third party helping the conflicting parties to address their conflict directly and constructively.

   Conciliation takes place when the disputing parties are not prepared to meet and the involvement of the third party is to help them to establish a direct communication channel to address issues of conflict.

   The **mediator** will attempt to help the conflicting parties to reach a mutually acceptable decision by fulfilling an advisory role, but may not, unlike an **arbitrator** solve the problem by coming to a decision on behalf of the conflicting parties. Once the arbitrator has made his decision it is binding on both parties and it is therefore critical that the arbitrator is fair and impartial in his judgment.

   Con Arb – where conciliation and arbitration takes place on the same day. It is mostly used for issues related to probation, but may be be used for other labour related issues as well (but NOT unprotected strikes).

7.2 **Workplace Forums (WPF)**
According to the Labour Relations Act (LRA) a Trade Union may apply to the CCMA that a Workplace Forum be established. The WPF will not take over the role of the Trade Union, but enables workers at all levels to participate in consensus decision making with senior management. One of the primary functions of the WPF is thus to increase efficiency in the workplace.

The LRA states that there are certain issues on which management has to **consult** with the WPF while other issues require more than consultation but also **consensus and joint decision making** between the WPF and management.

Some issues on which management must consult with the WPF:
- Criteria for merit increases
- Restructuring of the workplace and worker retrenchments
- Training related issues

Management and the WPF must take joint decisions on issues such as Disciplinary Procedures and Affirmative Action. If no consensus decision-making can be achieved, the issue may be referred to the CCMA.

7.3 **Employer's Organisations**
NAPE (National Association of Private Employers) is an example of an organisation that was established because it was realised that many of the smaller employers do not have the funds or need to employ a full time labour practitioner. (There are other organisations that offer similar services.) NAPE provides members with a Labour and/or Industrial Relations expert when required or on a contractual basis of one or two days per week. In short, the business outsources this element of the HR function to experts that stay up to date with amendments in Labour Legislation.

NAPE will assist employers on issues such as:

- Employment contracts
- Disciplinary and grievance procedures
- Dispute resolution
- Employment Equity Plans
- Representation at the CCMA
- Trade Union negotiations

7.4 Trade Unions obviously also play an important role to reduce and handle conflict between employers and employees.

PART B   **BUSINESS ETHICS**   **(maximum 35 marks for Part A, then Part B is marked to a maximum of 15 marks)**

In broad terms, **ethics** can be described as the human values that describe how one should live when keeping in mind what is seen as 'correct' behaviour.

Over the past few decades, **business ethics** has developed as a field in its own right. One of the reasons for this phenomenon of business ethics is a growing understanding that business transactions do not take place in a vacuum, but that there are always implications for stakeholders (both individuals and groups). This understanding of ethics will guide the entrepreneur's actions to implement plans taking into account that the financial bottom line – although very important – is not the only criterion to determine business success or failure. Different environmental dimensions such as the economic, political, legal, technological, demographic, social, governmental and regulatory environments impact on organisations and businesses as well as on individual jobs.

ETHICAL THEORIES

There are many different theoretical approaches to ethics. These may include:
- **Consequence based theories** state that it is the consequence of an action that determines whether the action is right or wrong. The only way to judge if behaviour is 'right', is to look at the consequence of the action. If the consequence is positive, then there cannot be anything wrong with the action.
- According to **Principle based theories** (Deontological is also based on predetermined rules) one's principles or values will determine whether the action is right or wrong. The consequences have no influence and there are no exceptions to the rule, e.g. it is always unethical to cheat regardless of the consequence.
- **Narrative based theories:** Different **narratives**/stories are used to complement each other in order to lead to an understanding of the difference between right and wrong.
- Other theories such as Ethical egoism, altruistic, virtue based and utilitarian theories and any other valid theories will be accepted and given credit.

Regardless of the ethical theory supported, Moral **Absolutism** vs Moral **Relativism** needs to be addressed.
- Moral Absolutism states that there is only one ethical solution to any problem.
- Moral Relativism on the other hand believes the solution to the problem at hand will depend on the situation and who is involved. This means that there can be more than one 'moral' solution to a problem, depending on different cultures for example. Obviously from this it will follow that due to values differing from person to person and from society to society, it will become difficult to set up a universal code of ethics.

Although it is very difficult, and some may argue, almost impossible to find a solution to a problem that will be viewed by all as 'the best for the situation', it may be useful to keep some basic guidelines in mind when making decisions.

Business Ethics may be described as the study of how personal values and principles are applied in a business situation.
Some basic questions a manager could consider when making a business decision:
- **What does the law say and do we agree with this law?** In some countries it may be legal to give large gifts or pay to ensure the desired end result (i.e. to give what we would term 'bribes', but known as 'smoothing or go-between' payments in some cultures), but not in South Africa.
- **What about choices regarding economic and social issues not covered explicitly by legislation or where the legislation is not enforced?** Is it acceptable to cause levels of air pollution in a third world country where there is no legislation on pollution? Is it acceptable to use child labour if the child is willing and sometimes desperate to work because he or she is the breadwinner? This last issue is a very real one in South African where HIV/Aids has left many children parentless.
- **The issue of self-interest vs the interest of the business also raises some ethical dilemmas.**

Some **ethical issues** in the corporate world may include:

- Conflict is a Restraint of Trade is not respected
- Employee **conflict of interest** may occur on many levels such as:
  – A moral conflict, e.g. a Muslim employee being told if he works on a Friday (when he wants to go pray) he may get a promotion;
  – A conflict of interest where an employee in Pick n Pay has a friend or family in a position that could bring an unfair advantage to the business (nepotism).
- Inappropriate **gifts** may be:
  – Inappropriately large and can therefore be seen as constituting a bribe;
  – Inappropriately given to a potential decision-maker with the intention to swing his/her decision or kickbacks (receiving or offering compensation for contracts);
  – Inappropriate as it may be linked to sexual harassment – for example, a senior male employee giving a married female employee jewellery, perfume or other gifts of that nature.
- **Unauthorised payment** may include, but is not limited to: Fraudulent invoices or payment requisitions, forged signatures (a huge issue when it comes to encrypted and electronic signatures), unauthorised electronic payments, skimming accounts (transferring small, seemingly insignificant amounts from customer's accounts on the assumption that they will not notice).
- **Affirmative action** aims at redressing issues of the past. It is an attempt to rectify past moral injustices and is a necessary part of the healing and moving forward of South Africa as a democratic country. But, in some cases, it is being taken so far that it leads to 'reverse discrimination' where well qualified people find it impossible to find jobs due to being white.
- **Internet, email and cellphone issues.** With modern communication methods, come modern moral dilemmas which range from employees visiting pornography and other questionable websites to forwarding morally corrupt or damaging emails and SMSs (e.g. Spreading false rumours, forwarding compromising photos or confidential information). Other means such as Mxit, blogs and Facebook (and the countless other similar tools) also have the potential to destroy reputations and disseminate damaging information.
- **Stealing from the business.** Taking stationery from the business, making private phone calls.
- Firing an employee for **whistle-blowing**. Whistle blowing refers to a situation where an employee reports unethical behaviour to management.

Consider the ethical consequences of the following actions:
- Divulging confidential information or trade secrets (insider trading);
- Terminating employment without following proper procedure;
- Some advertising issues which may include sexually overt advertising material during family viewing time on TV;
- Tax evasion that refers to not disclosing all income or lying about income (which differs from tax avoidance where one applies legitimate tax deductions).

Why business ethics?
Adam Smith (a well-known economist), stated that the only responsibility of a business is to maximise profits based on the principles of demand and supply, albeit obviously within the constraints of the law. If this is, however, the only responsibility of the business, there are obvious negative implications and businesses should incorporate mechanisms to regulate the impact of their actions on society.

There is a growing awareness that employees are more productive and creative if they find their work meaningful and if they are able to maintain a healthy balance between a professional and personal life. This may provide an incentive to the business to implement programs that will help employees to achieve this. As a result, the business acts more ethical by looking after the well-being of their employees. This therefore relates to the popular argument that the best way to serve one's own interest is to take the interests of others seriously. Following the logic of 'putting the customer first', serving the interests of all stakeholders will ultimately have the most beneficial effects on the business.

Enabling conditions are created when the business does more than merely staying within the letter of the law, which is not always sufficient. Businesses have to take into account the needs and requirements of all its stakeholders. For example, bad publicity can have a negative impact on the business and harming the environment may affect the long-term sustainability of the business. In short, the business has to play according to the written and unwritten rules, which will result in enabling conditions for the business to perform better.

The vast majority of South Africans would classify themselves as being religious. For those who are really committed and practising a particular religion, it is clear that their actions will have a wider impact on role players outside of the religious institution, including that of the business environment. This may provide the incentive to the manager/owner to act in an ethical manner or to embark on ethical programmes.

In the context of deregulation (removing restricting laws), businesses need to demonstrate that they can act as responsible citizens without being forced to do so. It is therefore in the interest of businesses to introduce ethical programmes to ensure that it can continue to operate without external interference.

It is also important to keep in mind that in today's environment businesses are becoming increasingly powerful, in many cases more powerful than governments. The business should therefore act in a responsible manner by contributing to create a 'good' society. For example, before introducing the Skills Development Act, the South African Government tried to get businesses to voluntarily share the (moral) responsibility of training and up-skilling both employees and others in the community. But the rate of change did not impact significantly on unemployment, as businesses were loath to spend money without an identifiable benefit to them. Ultimately, it has now become law and is slowly getting buy-in from businesses and affecting change.

Ethical behaviour in practice

Issues that may be seen as unethical include inter alia:

1. **Conflicts of interest**
   - If the person that awards a tender knows the person that has submitted the tender, he/she should not make the final decision on who will get the tender.
   - Another example may be 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.
   - A person that serves on the Board of Directors is approached by a competitor to also sit on that Board of Directors.
2. **Bribes and corruption**
   - 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, but can be a gift, an offer of employment, a promotion or any other favour. If it is in the form of money, it is sometimes referred to as a *smoothing payment* or a *facilitation payment*.
   - When someone in power abuses the power for his/her own gain, it is corruption. This may include a bribe or giving a kickback (indirect bribe) to a supplier or misappropriating funds or abusing an official position for personal gain.

3. **Unauthorised use of funds**
   Using business funds that is not authorised is the same as theft. People working in offices rather than in the manufacturing plant have more opportunity to get involved in what is known as *white collar crime*.

Even if someone with an expense account takes his wife for lunch and claims it as a business expense, he is guilty of unauthorised use of business funds. Or someone that has a petrol card to pay for business travel and uses it for private use.

4. **Inappropriate gifts**
Most businesses expect employees to declare gifts that they have received. It may even stipulate that no employee may receive a gift of value greater than R ... (a certain value).

5. **Sexual harassment**
- *The Code of Good Practice on the Handling of Sexual Harassment Cases* was issued to support section 2 of The Labour Relations Act that makes it clear that sexual harassment is a criminal offence.
- According to the above mentioned code, examples of sexual harassment may include:
    – Unwelcome physical contact
    – Verbal conduct (sexual advances, sex-related jokes, unwelcome enquiries about a person's sex life and unwelcome whistling directed at a person or a group of persons).
    – Non-verbal conduct (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.
- Employees may also not engage in any of the above activities towards customers, suppliers or any person who deals with the business.
- Every business should have a clearly defined policy on sexual harassment, including the procedure to follow should the employee feel he/she is the victim of sexual harassment and also the penalties for being guilty of this offence.

6. **Unfair advertising**
The advertising Standards Authority of South Africa ensures businesses act in a legal and ethical manner when they advertise their products/services. The Independent Broadcasting Authority Act (IBA) No 153 of 1993 gives the ASA legal recognition and therefore the right to develop and implement a Code of Advertising Practice with which all advertisers have to comply. This code ensures ethical advertising in South Africa.

Ethical advertising refers to behaviour that is generally accepted by society, i.e. being honest when trying to sell goods and services to the public. Honesty will pay off on the long term as it will build good customer relations. The following will be considered unethical:
- Materialism where false needs are created, e.g. if a business advertises liquor to rehabilitated alcoholics.
- Giving products deceptive names, e.g. calling a pizza a 'slimming meal'.
- False advertising or trying to deceive the consumer, when, for example, second hand goods are sold as new goods.
- Lying/making false statements about competitors. In fact any competitive advertising is illegal in South Africa.
- Racism, discriminating against the disabled or using unacceptable language is seen as 'cultural pollution', because it is perceived as discriminating against certain groups of people.

7.   **Employment/labour issues**
      There are a large number of issues that can be discussed under this heading. Some examples may include:
- Employees abusing sick leave.
- The abuse of the Internet or email may include:
  – employees that visit porn sites
  – employees that makes confidential information available to people that should not have access to the information
  – employees that spread rumours or other damaging information about the business or a fellow employee
  – employees that spend work time on Facebook or other social media sites
- Taking business stationery home for private use.
- Verbal abuse of staff members.

Employer not treating employees in an ethical manner:
- Leave
  – Annual leave: An employee is entitled to 21 consecutive days' annual leave every annual leave cycle.
  – Sick leave: An employee is entitled to 30 days sick leave in a three year cycle if he/she works a 5 day week or 36 days if he/she works a six day week.
  – Maternity leave: An employee is entitled to at least four consecutive months' maternity leave, but it does not have to be paid leave. The employer can give unpaid leave or fully paid leave or any combination of the two. If the employee does not receive her full salary, she may claim from UIF (Unemployment Insurance Fund).
  – Family responsibility leave: This only applies to an employee who has been employed for longer than four months and works at least four days a week for the employer. The employee is entitled to three days paid leave per year and may take this when a child is born, when a child is sick or when an immediate family member passes away.
- Notice periods to terminate employment: The minimum notice period that applies is 1 week if the worker has been employed for less than a month. 2 weeks are required if he/she has worked for the business for less than a year. A notice period of 1 month applies if a year's service has been completed.

Unfair treatment and unfair dismissal
If there is a dispute about any unfair labour practice, it may be taken to the CCMA. The CCMA will try to resolve the situation through conciliation, mediation and if needed, arbitration.

When one looks at what constitutes unfair treatment, the following types of actions are included:
- Unfair treatment regarding the allocation of benefits
- Unreasonably long probationary periods
- Unfair discrimination which is based on race, gender, language, religion, culture, sexual orientation, age, disability, political orientation and family responsibilities. There are, however, times when it would be fair to discriminate based on some of these factors (refer to the discussion of the Limitation clause earlier). Examples may include:
  – Affirmative Action to redress imbalances of the past; justifying discrimination when promotions are made or for training purposes
  – If the job requires a specific orientation such as a Christian church looking for a minister - it would be bizarre to expect the church to employ a non-Christian person in this position.
- Unfair suspension or unfairly subjecting an employee to any form of disciplinary action
- Failing to re-employ an employee when such agreement was reached

Unfair dismissal includes any of the following:
- The employee is dismissed because he/she participated in the activities of a trade union or workplace forum.
- The employee is dismissed when he/she is taking part in a <u>protected strike.</u>
- The employee is dismissed due to pregnancy or any reason related to her pregnancy or the employer refuses to allow an employee to return to her job after her maternity leave.
- The employer ends a contract of employment without appropriate notice to the employee.
- The employee is dismissed due to arbitrary factors such as race, age (except on retirement), gender, sexual orientation, religion and/or family responsibility.
- The employer makes the working environment impossible for the employee to tolerate and thus the employer "forces" the employee to resign. This is known as *Constructive Dismissal*.

Remedies for unfair dismissal may include:
- Re-employment
- Compensation (the maximum compensation will be the equivalent of 24 months' salary)
- Combination of the two

8. **Pricing of goods**
    - Price fixing occurs when competitors agree to charge the buyers a predetermined price. One is the principles of a free market economy is that competition keeps prices low and quality high. If businesses collude to fix the prices of products, it is unethical and illegal and the Competition Board may impose hefty fines. Directors may even be held liable for this in their personal capacity and face jail time.
    - The Consumer Protection Act (CPA) makes it illegal to charge more for products in rural areas than in urban areas without good justification. For example if the price is higher simply because there are no competitors to keep the prices low.

9. **'Insider trading'**
    This refers to a situation where someone trades shares on the JSE based on knowledge that is confidential, i.e. something only an insider (or his friends/family) in the business will know. This is a criminal offence.

10. **Piracy**
    Piracy is the illegal use or reproduction of somebody's work if it is protected by a patent or copyright. Think about the number of times that music or movies are illegally downloaded from the internet.

11. **Counterfeiting/Bootlegging**
    - Counterfeiting can be described as someone fraudulently imitating another's work and pretending it is the original. Designer clothing, shoes and handbags are often ripped off and sold as the original.
    - Bootlegging is the production and/or distribution of a product illegally. A shebeen that does not have a liquor licence is guilty of bootlegging. Or if someone sells cigarettes on the black market to avoid paying import duties or other taxes.

12. **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, e.g. deducting legal expenses before the taxable income is calculated.
    - Tax evasion on the other hand is illegal, because the business does not declare all the income or lies about expenses in order to pay less tax.

13.   **Whistle blowing**
       A whistle blower is someone that exposes unethical behaviour, fraud, health and safety violations or the violation of a law. Think for example what the impact will be on the business if one of the employees feels that something unethical is happening and he/she blows the whistle and in the process the business loses the deal or even faces a huge penalty. Who has acted unethically? The business or the employee for exposing the action?

       It is illegal to fire an employee for whistle blowing in South Africa.

Evaluate ethical/unethical behaviour in different spheres of society / world of Business and Finance
Having looked at different examples of unethical behaviour in the business world in the previous section, it should be clear that every businesses needs for Codes of Ethics. A code of ethics will be based on the business' core values and can be described as a set of guidelines and rules that will enhance business honesty and integrity.

Here are some reasons why a Code of Ethics is important:
- Transparency
- Requirement of King Code and Corporate Governance
- A code of ethics communicates the ethical vision of the business, but also covers specific issues that govern day to day behaviour.
- A code of ethics creates a common framework for all business decisions so that everybody understands what acceptable behaviour is and what is not.
- The code will guide the employee if he/she is not sure what the correct behaviour is in different situations.
- The code will spell out what the consequences of unethical behaviour will be and in doing so, it creates accountability in the business.
- It helps to protect a business if an employee breaches the code. But this is only the case if everybody was informed and often reminded about the expectations stipulated in the code.
- The code of ethics will help new employees to understand what acceptable behaviour is and what will not be tolerated.
- When the business operates in the global arena (international trade and dealings), it helps management and employees to understand what is acceptable to the organisation, regardless of where in the world the business operates. This is important, because ethical standards and values may differ between countries (or even groups of people within a country) and by having a code of ethics it eliminates confusion.
- The code should stipulate what the acceptable behaviour is when a conflict of interest arise in the work situation.
- A code of ethics gives the business the opportunity to create a positive image of the business with the public and in doing so, potentially giving the business a competitive advantage.
- The code of ethics may also be used to guide the business and employees on the importance of Corporate Social Responsibilities (CSR).

BUSINESS STUDIES PAPER II: LOWER ORDER THINKING RUBRIC (60% WEIGHTING)						Question 1	Question 2
CRITERIA	**0**	**1**	**2**				
Format	Not meeting the correct standard	Partially correct format	Correct format				
	0	**1**	**2**	**3**			
Terminology	No use of business terminology	Isolated/limited use of business terminology	Good use of business terminology	Outstanding use of business terminology			
Content (number of relevant facts)	Maximum 50 facts. Divide by 2 to get mark out of 25. Marks are inter alia given for mentioning the fact, explanations of facts or statements, relevant examples; expansion of acronyms. NOTE: Listed facts that are not explained = max 4 marks (8 facts)						
Subtotal: (30 marks)							

BUSINESS STUDIES PAPER II – HIGHER ORDER THINKING RUBRIC (40% WEIGHTING)							
If all SECTIONS have not been completed, the judgment is based on the amount of expected information.							
E.g. A candidate substantiating one section well, but not answering the other cannot qualify for a 'majority of statements' mark.							
CRITERIA	**0**	**1**	**2**	**3**	**4**		
Substantiation (justification for statements made)	No attempt at substantiation.	Very limited substantiation.	Less than half of the statements are substantiated.	The majority of the statements are substantiated.	The majority of the statements are thoroughly substantiated showing breadth and/or depth of understanding.		
	0	**1**	**2**	**3**	**4**		
Application to context	Superficial reference based on the case study/context given. (Just keep mentioning the name of the business repeatedly without relevant examples).	Continuous reference is made to the case study/ context given with some applicable examples given.	Continuous reference is made to the case study/ context given with several examples that are fully integrated into the answer.	Examples are relevant to the case study/context given and fully integrated into the response showing understanding of the issues at hand. Reference is made to current affairs.	Examples are relevant to the case study/ context given and fully integrated into the response showing understanding of the issues at hand. Current affairs are fully integrated into the response.		
	0	**1**	**2**	**3**	**4**	**5**	**6**
Creative problem-solving	No understanding of the problem and no solution given.	Identification of the problem and an incorrect/poor solution suggested.	Identification of the problem with breadth but no depth (superficial).	Good insight and understanding of half the problem with solutions offered showing depth of understanding OR less than half in breadth and depth.	Good insight and understanding of the majority of the problem(s) with solutions offered showing depth of understanding OR half in breadth and depth.	Good insight and understanding of the holistic problem with solutions offered which are fully discussed, showing understanding on all aspects OR the majority in breadth and depth.	Good insight and understanding of the holistic problem with solutions offered which are fully discussed, showing breadth and depth of understanding.
Synthesis	None of the criteria as listed below are met.	At least one of the criteria fulfilled.	Any two of the criteria fulfilled.	Any three of the criteria fulfilled.	Any four of the criteria fulfilled.	Any five of the criteria fulfilled.	All six of the criteria are fulfilled.
1 Introduction – did not just re-write question, but shows an understanding of the 'link' between the topics							
2 Conclusion – this should be a logical affirmation of the points raised							
3 Flow of thought, i.e. paragraphs leading into one another							
4 Integration of topics given in the question							
5 Integration of question with other Business related topics to enhance the quality of the answer							
6 Arguments are developed							
SUBTOTAL: (20 marks)							

QUESTION 2

> It is important to keep in mind that candidates may approach this question from different perspectives to solve the problem. Some candidates may for example prefer to do a SWOT-analysis to discuss the various issues, while others may discuss it in a different format. The format is not important, but rather being able to solve the problem of performance.

PART A   INTERNAL ENVIRONMENT   (maximum 35 marks for Part B,
                                                 then Part A is marked to a maximum of 15 marks)

THE QUALITY OF PERFORMANCE OF THE DIFFERENT BUSINESS FUNCTIONS

HUMAN CAPITAL/HUMAN RESOURCES
Although a lot of responsibility rests on the shoulders of the line managers (other functional managers) to implement strategic plans aimed at improving the performance of the business, the role played by Human Capital should not be underestimated. The HR-function can also, through training and coaching, assist other functional managers to create an atmosphere conducive to continuous quality improvement.

The first step to doing so is to organise training programs to help all functional managers and employees understand improving quality is not the sole responsibility of the production department, but something that should be a priority of every employee in the business. The time spent on developing an understanding of the importance of continuous quality improvement and reminding staff about this, is time well spent.

One of the tasks of the Human Capital function is to develop and implement an organisation structure that will promote the goals of the business. People must understand the relationship that exists between different departments in the organisation and how their actions will impact on other's efforts to improve the quality and the overall performance of the business.

Human Capital must ensure that there is an efficient feedback mechanism such as (but not limited to) performance appraisals in place in the business. Functional managers must be reminded of the importance of giving feedback to employees. But it is not only the line manager or immediate supervisor that is in a position to give valuable feedback. A relatively new concept of '360° feedback' allows additional information on performance to be collected from peers, subordinates, customers and also through self-evaluation on how performance can be improved. Feedback provides people with information on how well goals were achieved and therefore allows for the opportunity to correct errors and to make progress towards the attainment of objectives.

Employees need to be motivated to achieve the goals of the business. Generally, if staff has the ability (skills developed through training) to perform a task, improved motivation should lead to improved performance. It is more difficult for the HR function to develop intrinsic motivators such as job satisfaction, but additional extrinsic motivational factors such as incentive bonuses can also help to improve performance levels. Social rewards such as praise, recognition and appreciation may also help to improve individual and thereby also overall business performance.

Reward systems should be aligned with the values and performance that are promoted in the organisation.

FINANCE
The owners invest capital in a business and expect a certain return on their investment. Therefore, the financial department must, through prudent financial management ensure that these expectations are met. In assessing the performance of the business, the financial function has a number of tools available to do so. Some of these financial tools include drafting the financial statements (Income Statement, Balance Sheet and Cash Flow Statement) of the business as well as budgeting and looking at certain ratios (performing ratio analysis) to see how well the business is performing.

There are a large number of ratios that can be used. Some of them are: Current capital ratio, acid test ratio, average debtors collection period, average creditors payment period, rate of inventory turnover, net profit % (profit margin), Return on Investment (ROI or profitability), solvency ratio.

PURCHASING FUNCTION
The purchasing function buys goods and services needed by all departments in the business. These goods and services are bought from different suppliers and the purchasing department has to negotiate with suppliers to get the best possible prices whilst still keeping the quality required in mind.

Keeping purchasing costs low will help to ensure the best possible return on investment (ROI). ROI or profitability refers to the profits which are generated with a specific amount of capital is invested in the business. Reducing costs should increase ROI.

PRODUCTION FUNCTION
Product specification is a pre-requisite for good quality and improved performance in a production environment. Unless the material and methods to be used when the product is made is standardised, performance targets will not be known and therefore it becomes impossible to meet. Suppliers of material need to know exactly what quality material is required. Setting parameters makes it easier to control the quality of raw materials and therefore also the quality of the finished product. In addition to being specific about the quality of materials, the employees must know what is expected from them in terms of acceptable performance levels. This will ensure customers get the quality product that they expect.

Factors affecting quality control in a production environment may include:
- There has to be a system to record where deviations/problems occur.
- Job tolerances ('acceptable problems') must be defined.
- It has to be decided how many inspection points are required (not too many as this will increase costs, but not too few to prevent problems from being detected early enough to be rectified).
- The number of inspections per inspection point (how many samples will be tested at each check point) should be specified.
- Reliable and efficient inspection methods should be used.
- The human element will also impact on the quality of the product. Workers have to be trained, have good working conditions and be motivated by management to give of their best.

Two basic methods of quality control that can be used in the production function are sampling and inspections. **Sampling** involves a few products from the batch being tested. If the sample is of a good quality, the whole batch will be approved. This has the risk that a bad batch can be accepted if the sampled products appear in order. More samples will reduce this risk but it will increase the cost of quality control. Inspections are usually used when goods produced are expensive. **Inspection** means each product is tested and compared with quality standards. This is time-consuming and increases the cost of quality control. When safety is paramount, inspection may be the preferred quality controlled method. For example, each car coming off the production line is test driven to ensure brakes are in good working order.

MARKETING FUNCTION

The question is often asked 'Can one justify funds spent on certain marketing activities?' In other words, how do we measure the return on investment obtained from a specific marketing drive or how has spending this money improved the performance of the business? There are four marketing policies, i.e. the product, price, place or distribution and marketing communication (promotion) policies. Additional 3 Ps: People (employuees), processes and physical evidence. One should therefore be careful not to fall in the trap of just thinking about advertising when discussing the impact of the marketing function on the overall performance of the business.

Some of the results from a successful marketing campaign may include:
- Protecting revenue streams or increasing revenue
- Creating or improving brand value
- Maintaining or expanding the customer base
- Building goodwill (customer loyalty)

From this it is clear that the performance of the marketing department will impact on the overall performance of the business.

PUBLIC RELATIONS FUNCTION
- Public relations involve all the activities that influence the opinions and maintain a mutual understanding between the business and the public.
- The primary aim of the Public Relations department is to create and maintain a favourable image of the business will all relevant stakeholders.
- Public relations is a continuous, long-term interaction between the enterprise and outsiders. It can only be successful if conducted on the basis of honesty.
- Issues that may be handled by the Public Relations Department may include:
  - A crisis where bad publicity is involved.
  - A positive situation, e.g. the launch of an exciting new product or service or a new Corporate Social Responsibility Program.

ADMINISTRATIVE FUNCTION aka OPERATIONS MANAGEMENT (looking after processes, IT issues and inbound and outbound logistics

The administrative function is responsible for collecting all data in the business and the business environment. The data will then be processed into information, the information stored and then made available to management as and when needed. In short, the administrative function handles all the paper work and record keeping in the business.

One of the most important aspects of keeping administrative records up to date is conformation with legislation. For example, SARS requires that tax records and financial information are kept for a period of five years. Ignorance is no excuse in the eyes of the law, so the administrative department must ensure they meet all legal requirements in this respect.

GENERAL MANAGEMENT FUNCTION
- The basic tasks of management are to:
  - Plan the future of the business, organise to get all staff and materials needed in the business, lead workers to make sure they are working to help the business to make a good profit, control all activities in the business to make sure things are going according to plan.
- Additional management tasks include:
  - Coordination of the different functions in the business, communication with employees and customers, delegating tasks to subordinates, disciplinary action (if and when required), decision making and motivating workers.
- In order to plan for the future of the business the manager must formulate a vision, mission, goals, objectives and strategies for the business.

- Managers often have a preferred leadership style. This may vary from autocratic to democratic, Laissez-faire, transactional leadership, transformational leadership or even a situational leadership style.
- As is the case with all the other business functions, general or top management must also be familiar with legislative issues impacting on their operations. One of these prominent concepts is Corporate Governance where management must be aware of issues such as transparency, independence, accountability, integrity, social issues, fairness in dealing with stakeholders as well as fiduciary duties and responsibility of directors.

ADDITIONAL FUNCTION → RISK MANAGEMENT (as per good Corporate Governance requirements)

METHODS THAT CAN BE APPLIED WITHIN AN ORGANISATION TO PROMOTE BETTER PERFORMANCE

To ensure good performance of the overall system (the business), the components (departments) in a system must operate efficiently and effectively.

- A culture of **continuous quality monitoring and improvement** should be encouraged in the organisation. Quality control should be a priority in every business process and not just in the manufacturing department. The aim should be for everybody to do it right the first time, every time. This brings to the concept of TQM (Total Quality Management) that will be discussed later in this section.

  Quality improvement is too often only the focus of the production function and ignored by other departments or businesses that are not involved in the production of goods. The customer's first impression of the quality of service is often based in the responsiveness or willingness of the staff to assist. Customers also expect reliability, which refers to the ability of the front line staff to make good on promises. Customer service should embrace an attitude of empathy (caring and attention when keeping the individual customer's needs in mind) to ensure that a positive quality perception is created in the mind of the customer. In a service organisation there should be value-driven leadership to ensure the quality of the service offered will exceed the expectations of the customers. To deliver outstanding quality service, the core values of the business should include excellence through innovation, teamwork, respect and integrity. If these values are incorporated in the organisational culture and form a part of employee behaviour, the business will far outperform other service undertakings where these values do not underpin strategy.

- Kaplan and Norton developed the concept of the **Balanced Scorecard (BSC)** in the early 1990s as a tool that management can use to get a quick but comprehensive understanding of the overall performance of the business by looking at the interrelationship between different variables. These variables have to be measurable because as the saying goes in management: 'One cannot manage something if it cannot be measured but you cannot measure something that cannot be described'. The BSC forces management to look at a variety of important issues that impact on the business performance and not just financial performance indicators. The BSC traditionally had four focus points:
  - **Financial perspective:** Profit, profitability, liquidity and other financial ratios are important indicators of financial performance that shareholders, management and employees are interested in.
  - **Customer perspective:** This focuses on issues relating to 'How do customers see the business and what are their expectations from the business?'
  - **Internal (business) process perspective:** This describes the internal business processes that are critical to success and include questions relating to operations and social processes.

– **The Learning and Growth perspective** describes intangible assets such as information and human capital in an organisation.

One very interesting development that followed from the 'traditional BSC' of Kaplan and Norton is the design of an Employee Balanced Score Card where the interrelationship between employee performance and organisational or departmental objectives are investigated.

EXTERNAL ENVIRONMENT

1. **The Macro Environment: A P²E²STLE-analysis**

   Both the macro and market environments form part of the external environment. The business has no or limited control over events taking place in the external environment, but has to look at these events and formulate strategies (plans of action) how to adapt to the events in the external environments.

   There are various tools that one can use to analyse the events in the macro environment in order to:
   - determine how the business should react to eliminate any threats,
   - while at the same time capitalise on opportunities that may be created due to changes in the macro environment.

   Some of the tools used to analyse the macro environment include an environmental scan, a SWOT analysis and a PESTLE analysis or more accurately, a P²E²STLE analysis.

   Each one of the letters in P²E²STLE represents a factor in the macro environment that could potentially threaten the business or that the business could use as an opportunity to create or strengthen its competitive advantage.

   > **IMPORTANT TERMINOLOGY**
   >
   > **Competitive advantage** is the advantage that a business has over other competitors in the market (local or international). This means the business can use this advantage to sell more, get more customers or to reduce expenses and therefore make more profit.

   Below each of these letters of the P²E²STLE analysis are discussed individually and also how they impact on each other:

   1.1 **Political factors**

   This factor is important when it comes to the:
   - local political situation of the country in which the business operates,
   - the political situation of other countries in which the business may operate,
   - but also world politics in general.

   Political factors and LEGAL factors are closely related, as the political party running the country will make the laws (legal/legislation) that determine what is acceptable and what is not allowed.

   For example: In South Africa the political changes that came about after 1994 (first democratic election) resulted in a new Constitution that prevents previous political actions such as Apartheid. The new ruling party (political party) also introduced laws such as Black Economic Empowerment (BEE) and later Broad Based Black Economic Empowerment (BBBEE) to redress inequalities from the past.

> **IMPORTANT TERMINOLOGY**
>
> **The Constitution** forms the basis of all other laws in the country and both private citizens and businesses have to abide by this law. Some of the basic issues covered by the Constitution include:
> - The Bill of Rights (Basic Human rights such as Freedom of Speech, Freedom of Association, Freedom of Religion, Right to education, water, health, housing, Inclusivity, i.e. no discrimination and Protecting the Environment,)
> - Public administration
> - Provincial governance
> - Local governance (municipalities)
> - And then some

When we look at political factors we need to consider aspects such as:
- The Government's likelihood to interfere in the economic functioning of the country (and therefore the functioning of businesses), e.g. a free market vs socialism vs communism.
- Political stability in the country.
- Political bonds with other countries, as this may for example, influence trade agreements.
- Degree of media freedom/freedom of speech that may be used to criticise the political parties in the country, e.g. corruption.
- Attitudes of different political parties in the country where business is done. E.g. the local banking and mining sectors may want to take note of a political party such as the Economic Freedom Front (EFF) that is in favour of nationalising banks and mines. Even though the EFF is not the ruling party and the ruling party does not support this view, it is good to take note of the view of the ruling, as well as that of opposing political parties as this may (or may not) shape the future political orientation of the country.
- Funding of various projects and/or granting tenders to businesses.
- The allocation of Government tenders.

1.2 **Economic factors**

Economic factors refer to issues such as:
- Economic growth and development rates in the country refer to 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.
- Interest rates: the rate at which people or businesses borrow money from the bank or the percentage return when saving money in the bank.
- Exchange rates (strength of the currency vs the currencies of other countries)
- Unemployment rates.
- Taxes (income tax, VAT, import duties, etc.)

1.3   Ethical factors

Ethics refers to the principles and/or values that will determine decisions and actions, because it provides a guideline for the person/business to judge how to act in the 'right' way when faced with a moral dilemma or difficult situation.

Elements to consider when looking at ethical factors include:
*   The difference between ethical and legal. Something may be legal, but not ethical in a particular situation. Alternatively, according to the person's or business' set of principles it may be ethical, but it may not be considered legal in that country of trade.
*   Fair Trade (respect and transparency in business dealings, where one party will not attempt to exploit the other).
*   Corporate Social Responsibility: The responsibility towards the shareholders to make profit vs towards giving back to the community.
*   Privacy on the Internet.

1.4   Social/Socio-Economical factors

Socio-economic factors refer to the impact that social trends have on the economy and role players in the economy, e.g. businesses and consumers' lifestyles and their behaviour (how the business is supported or not).

The business needs to adapt to changes in social trends. Think about the impact that social media has on the world around you and how businesses have to adapt their marketing and selling efforts to use opportunities presented by the use of mobile devices.

Other factors to consider here include:
*   The average age of the population, life expectancy and people becoming more health conscious
*   The number of single parents providing for a family
*   HIV/Aids infection and other diseases such as TB and malaria
*   Levels of literacy/education
*   Unemployment rates
*   Personal safety
*   Awareness of the issue of pollution and recycling (also refer Environmental issues)
*   Distribution of wealth/poverty
*   The changing role of women in society or in certain cultures

Each of these factors will have a greater or lesser impact on different businesses.

1.5   Technological factors

Technology refers to the equipment the business uses to buy (or make), sell or advertise the product or service.

Think how the following factors impact on the business that you use as your case study this year:
*   Automation of different processes that require less manual labour (or lower skilled and therefor cheaper labour)
*   Advances in online money transfers (Internet banking, electronic fund transfers)
*   Online shopping
*   Quicker sales transactions through EPOSSE (Electronic Point of Sales Scanning Equipment as opposed to manual pricing)
*   Product innovation through Research and Development (R & D)

1.6 **Legal environment**

The legal environment refers to all laws that impact on the business. This may include:
- Labour legislation such as Labour Relations Act, Basic Conditions of Employment Act, Black Economic Empowerment, Broad Based Black Economic Empowerment, Skills Development, Occupational Health and Safety
- Legislation introduced to protect the consumer. Think here about The Consumer Protection Act, the Credit Act, but also issues such as information displayed on labels to inform and protect consumers
- Laws that protect the environment against exploitation and pollution
- Criminal justice that protects the business against piracy and rip-off
- But also think about laws such as paying tax, registering your business, health and safety when dealing with food

1.7 **Environmental factors**

- Environmental factors are important if one thinks of the growing awareness to protect the environment and prevent negative consequences such as global warming and changes in weather patterns.
- Think about the general move towards more environmentally friendly products, the emphasis placed on recycling, hybrid cars, higher taxes on air travel and efforts to reduce the carbon footprint.

1.8 **Physical factors**
- Geographical factors such as location, weather, etc.
- Infrastructure, e.g. road, rail network, etc.

1.9 International / Global environment

2. **The Market Environment: Porter's Five Forces Model**

Michael Porter's model is a very popular and an easy to understand tool that can be used to analyse the **Market environment**. The Market is any place (physical or electronic) where goods and service are bought and sold.

When looking at the Market environment one will have to look at:
- Competitors: which businesses sell the same or similar product or may try to do so in future
- Suppliers of the products that will be sold
- Buyers that must be convinced to take their limited money and buy the product or service

The first three forces focus on Competitors (current, future and substitute products):

2.1 **Level of rivalry (current competitors)**

It is important for any business to know what the competitors are doing. If one can find an area where a competitor is not performing well, it may present an opportunity for our business to make more profit. By identifying the areas where competitors are achieving success, it may be an indicator of a threat to our business and we can implement a strategy to prevent losses.

By comparing our business with competitors we can identify our strengths (where we are better than our competitors) and weaknesses (where we are performing worse than our competitors) and then take appropriate action.

When our business is compared with competitors one will look at issues such as:
- Size and financial resources of the business

- Market share
- Quality of products/service
- Consumer brand loyalty
- Pricing of products or service
- Convenience of location and distribution channels
- Trading hours

The business needs to develop strategies to improve our business to outperform competitors on the above-mentioned factors, as competitors have the power to 'steal' our customers and thus our profits.

Examples of such strategies:
- Customer loyalty programs that are introduced to make our business more attractive than a competitor's.
- When a business reduces the price of certain products/services to make sure the business is a more attractive option than its competitors.

IMPORTANT TERMINOLOGY

Strategies can either be a formal business plan to achieve a long or short term goal or it can simply be a plan of action that is implemented to improve the overall performance of the business.

2.2   **Threat of new entrants**

It is not only current competitors that can 'steal' our customers, but also new businesses that see an opportunity to make money by entering the market.

As an existing business any potential new business is seen as a treat to our market share and profit and therefore the business tries to build 'barriers' (more strategies) that will prevent new businesses from entering the market successfully.

- The bigger retailers in shopping malls will for example negotiate with centre management to prevent too many competitors getting space in the same centre.
- Or a business may register a patent to try to stop a potential new business from selling a similar product.
- And think how the government puts legislation in place to make it difficult for new businesses to supply electricity to consumers.
- Even large sums of money spent on advertising and having promotions where products or services are sold at a lower price make it difficult for a new business to enter the market.
- Taxes on imported goods is a barrier that government puts in place in certain industries to try to protect the local market from cheap mass produced goods from overseas.

2.3   **Availability of substitute products**

A substitute product does NOT refer to a different brand of product.

To illustrate different brands available in Pick n Pay:
- Simba chips and Willards chips
- Samsung and Blackberry mobile phones

A substitute product is a different product that satisfies the same need. To illustrate substitute products sold by Pick n Pay:
- Butter vs margarine

- Sugar vs artificial sweeteners

The more substitute products available, the more 'indirect competitors' have to be considered in order to outperform them to make a good profit.

2.4 The power of suppliers

Any business that does not have a reliable supplier is going to encounter problems more often than not.

In order to be successful, the business depends on the supplier to supply a good **quality** product when needed **(timing)**, deliver it to the **place** where it is needed in the correct **quantity** and at a reasonable **price**.

Large suppliers, e.g. Amalgamated Beverage Industries (ABI – suppliers of Coke, Fanta, Sprite, etc.), Cadbury's, Simba, etc. supply their products to Pick n Pay AND a large number of wholesalers and retailers. It is important that the business keeps in mind that if the supplier sells to a competitor at a lower price or provides the stock to the competitor when there is limited stock (e.g. during a strike), that your business will be in a weaker competitive position and therefore probably be less successful.

The following are cost associated with no availability of stock:
- If there is no material, a manufacturer cannot produce (no sales = no profit)
- If there is no material, machines and labour cannot be utilised to their full capacity as the production or selling process grinds to a halt.
- Administration and opportunity costs are incurred when dealing with a stockout. If a business has run out of stock, it becomes very difficult to negotiate discounts when placing orders.
- Customer goodwill may be lost if customers have to go to competitors.

For this reason it is important to build strong and long term relationships with suppliers as your success is to some extent determined by the suppliers of your products.

2.5 The power of buyers (also refer CPA)

The buyer may be a wholesaler buying from a manufacturer, or a retailer buying the products for his shop or even the consumer who has to spend his or her hard earned money at your business. If you do not respect the buyer and offer them good value for money, he/she may decide to support a different business.

When a retailer sells to the final consumer, the following aspects may need some consideration:
- Brand loyalty or is the consumer prepared to swop brands if he can get a better deal? E.g. will the consumer shop at Dis-Chem for headache tablets or is Pick n Pay 'good enough' to buy over the counter medicine?
- Price sensitivity – in some instances buyers may be happy to pay more for a product or service if it is delivered, has a guarantee, is conveniently available etc.
- What type of product/service is being offered? E.g. a consumer may be prepared to travel a bit further to buy speciality goods such as expensive household appliances in order to get exactly what he/she wants, while convenience goods (such as groceries) and select goods (such as clothes) do not justify travelling

further and the consumer may be prepared to settle for a different brand or a substitute product.

- 'Snob-value' or the image associated with the product or service will also often determine where the consumer makes the purchase.

2.6 **6th factor according to Porter → Complimentary products to increase the demand for the original product**

PART B **(maximum 35 marks for Part B, then Part A is marked to a maximum of 15 marks)**

Possible strategies to improve the performance on the business:
Quality circles

Business process re-engineering

Drive technique

Value Chain Analysis
In the business environment, the concept of adding value for a customer should ensure a more successful business. In a manufacturing environment it is easy to see how and when value is added. Just follow the process of raw material (input) being transformed into a valuable product (output). However in other instances it may be more difficult to 'see' the value added when a service is rendered, i.e. where people use time, knowledge and systems (input) to create services (output) for the customer.

If one keeps in mind that there are internal customers (co-workers or your boss) and external customers, it is important to look at the entire business process to decide where value is added in a cost efficient manner to enhance the quality of the product or service rendered.

Often it is found that if a business is involved in something that is not their core-business strength, that the service rendered does not add value to the business process. In cases like this, it may be better to outsource the service.

SWOT-analysis (Strengths, Weaknesses, Opportunities, Threats)
A SWOT-analysis is a useful tool to look at the internal AND external environments.

The S (Strengths) and W (Weaknesses) refer to INTERNAL issues, i.e. the eight business functions and the efficiency/strength of coordination between them to make the business successful.

The O (Opportunities) and T (Threats) refer to issues in the macro and/or market environments. For example, if a competitor (market environment) has a superior marketing strategy, it will threaten our business because customers may be lost. Or if the exchange rate (macro environment) deteriorates and we import our raw materials, it is a threat to our business' profitability.

STRENGTHS and WEAKNESSES – Remember *I HAVE CONTROL* over these issues!
- My financial strength (availability of capital, profitability, solvency, liquidity)
- How good/creative is my marketing campaign
- The strength of my brand, patents to protect my brand
- Location of my business
- Cleanliness of my store
- Quality of my product/service
- How competitive is my prices?
- Strength of the management team
- Employees: skills, motivation, moral, teamwork
- Any INTERNAL factor that forms part of the eight business functions

OPPORTUNITIES and THREATS – Remember I DO NOT HAVE CONTROL over these issues, but REACT to them!
- All elements of Porter
- All elements of P^2E^2STLE
- Examples: unfulfilled customers' need, changes in customers' needs, arrival of new technology, changes in regulations, removal of international trade barriers

The Delphi technique

This technique is used as a method to obtain the opinions of experts on a particular topic, without necessarily bringing them together face to face. The idea of not bringing the experts on the matter together in a face to face situation is often incorrectly thought to be a cost saving effort.

The real reason why experts are consulted in a situation where they interact, but remain anonymous, is to prevent a situation where subjectivity and personal opinions prevent other members of the group of giving their critical judgements.

Let us say a retailer would like to get a group of housewives' opinion on a new washing powder. In the first round, information will be collected from the panellists on what their expectations are in terms of a washing powder. This is then analysed and feedback is given in a second round of discussions. The people participating then get an opportunity to revise their judgements based on the feedback given by the group, but while still maintaining their anonymity of their individual contributions. This will prevent a situation where people on the panel are influenced by what other panellists look/sound like or where they will agree with the rest of the group so they do not look 'stupid' (group think).

RIMS (Rational Interaction for Moral Sensitivity) strategy

Although this section is aimed at problem solving in the business world, one cannot lose sight of the fact that it is important to find ethical solutions to problems. The RIMS strategy argues that the solution should be beneficial to society, rather than just focused on 'how do I benefit from this solution'?

In order to achieve this, it is suggested that all participants discussing the problem should be seen as equals so that each person can state his or her case on an equal footing. Only facts may be stated and personal opinions, emotions and positions held in the organisation held in the organisation may not be brought to the discussion.

It is an open question whether this is a practical approach in a business situation. It is understandable that if the manager is going to be held accountable for the outcome of the situation, he or she is not going to allow others to make the final decision for them. It may however be a good

idea to let everyone speak their minds on an equal footing and then the manager can use all this input from various people to solve the problem at hand.

Resource Based Approach

The Resource Based-Approach to problem solving states that the business should find out which resources are of strategic importance to the business. These are the resources that can assist the business in creating a competitive advantage in the market place.

When a business is faced with a problem, it has to determine which resources are needed to solve the problem, are these resources available and what would be the cost of obtaining the resources? If a scarce resource is needed and the business has his resource available, it may give the business a competitive advantage. For example: Two entrepreneurs aim to establish a chicken fast food business in a particular area. The one owns a Nando's franchise while the other does not. This scarce resource (knowledge, expertise, support from the franchisor, established brand) will give the Nando's franchisee the competitive edge.

Resources may include tangible and intangible elements. Tangible resources could include scarce raw materials, financial resources, land and buildings (good location), equipment, etc., while intangible assets may be patents, an established brand, skills and good moral amongst the workforce, a reputation of superior customer service), etc.

Depending on available resources and/or the cost to obtain them, different approached to solving the problem may be considered.

Any other relevant technique

Generic strategies

1. *Low cost strategy*
    The competitive advantage created by a *low cost* strategy is based on having the lowest cost in the industry. In order to achieve this, the following can be applied if the work-force is committed to this low cost approach by using:
    - low input costs of the business has access to cheap raw materials
    - low cost manufacturing where costs are reduced through efficiency using mass production, technology and re-engineering activities

    Activities that do not offer cost benefits must be discontinued, e.g. outsourced or re-structure to save costs.

    This strategy works best if there is a big market share where a large market share generates high volumes. In short: the business can charge a low price because high demand means revenue is not sacrificed.

2. *Focus*
    Using a focus strategy to develop a competitive advantage means efforts are aimed at a specific market segment based on geography, culture, age, hobbies or any other criteria that created a unique group of customers in the market that has different needs than the rest of the target market.

    Customers must have distinct preferences that are catered for. The niche market becomes the focus and presents opportunities for the business because it is often overlooked by competitors or not viewed as 'worthwhile'. The niche must be big enough or have growth potential to make it worthwhile.

In order to be successful when implementing a focus strategy, the business must have expert knowledge of the niche market and the ability to develop products for this market segment.

3.   *Differentiation*
All efforts are aimed at providing a unique product/service which will ensure customer loyalty and therefore a premium price can be charged. The uniqueness can be based on quality (real or perceived per brand name, fashion, image), after-sale support, product features, distribution or marketing efforts. In order to base the business' competitive advantage on a differentiation strategy, it must be difficult for competitors to copy. The key to a successful differentiation strategy is also to continuously redevelop products and/or service to keep up with changes in the environment.

Corporate strategies:

1.   *Corporate combination*
There are different options of a corporate combination strategy:
- A Joint venture takes place where two or more businesses enter into an agreement to combine resources to improve the functioning of both businesses.
- When two or more businesses merge or when a takeover takes place, the individual businesses no longer exist separately, but they are now one business.

2.   *Decline/defensive strategies*
        When a business decides to scale down or reduce its operations or some of the products, it
        follows a defensive or decline strategy.
        •   If a business decides to follow a **retrenchment** strategy, it is in order to reduce the size
            of the business or to reduce the diversity of products/service sold. This is done in order
            to reduce expenses and thereby improving the financial position of the business.
            divestiture is part of a retrenchment strategy and involves the business to selling off
            some of its operations because assets used in these operations are under-utilised and it
            hampers the financial performance of the business.
        •   If a business is bankrupt, it will be **liquidated**. This means all assets will be sold to pay
            for the debt of the business and the business will no longer exist.

3.   *Growth*
        When a growth strategy is implemented, the aim is to grow the business' turnover and sales
        volume. There are numerous options for a business when it comes to growing the business,
        but the four most common options are known as Intensive strategies or Ansoff's growth
        matrix.

	MARKET PENETRATION: The **existing market** and **existing products** are used. A business may use different tactics to achieve this. Offering lower pricing or more intensive distribution may convince existing consumers of an existing product to switch, grow their business.	**PRODUCT DEVELOPMENT:** This involves taking a **new product** and offering it to an **existing market**.
Existing		
MARKET / New	**MARKET DEVELOPMENT:** When Pick n Pay decides to expand to other countries in Africa where the concept of retailers has not been established yet, an **existing product** (food retailing) is taking into a **new market**. Or if your school does not have a primary school yet, the school may offer an existing product (education) to a new market (parents with younger children).	**DIVERSIFICATION:** The business enters a **new market** with a **new product**. It does not mean the market or product does not exist at all, just that this business has never sold this product to this market before and is now doing so to grow the business.

Existing   PRODUCT   New

Other strategies:

1.   *Revise business mission and revise objectives*
        The mission statement is a description of what the business does or what the purpose of the
        business is. If what the business does is no longer what consumers want, it is time to revise
        the business mission. But a business waiting to revise the mission when consumers' demand
        has already changed has waited too long.

        In the fast changing world that we live in, no business can afford to 'wait and see' what the
        future will bring. Management should be pro-active in its approach to possible changes in
        the market place and then align the mission and objectives of the business with what is
        desired in the future. The business will have to revise the mission and objectives now, to
        'meet the future before it happens'.

2. ***Allocate resources differently***
    Resources in the business refer to employees, money, machines, time, raw materials and even skills. Resources should be allocated where they are most productive (creates the biggest competitive advantage and brings in most profits).

    If the business has decided to revise the mission and objectives, it will have to consider how resources are allocated in the business. And if resources are allocated to a task that does not add value, the task has to either be outsourced or terminated.

3. ***Total Quality Management (TQM) and Total Customer Satisfaction***
    No business will survive if it does not keep customers satisfied. TQM is a process where everybody in the business is committed to thinking about how all actions impact on the quality all tasks and overall customer satisfaction. And customer satisfaction refers to internal customers as well.

    To illustrate this by means of an example: The training division's customers are all the employees that are trained in the business, i.e. an internal customer. If the training department does not follow the philosophy of TQM, employees will not have the knowledge to do their jobs or their moral will be low because they do not feel empowered. This will in turn impact on production, marketing and all other departments of the business where these employees work.

    In order to determine the quality of a product or service, **inspections** can be carried out. Inspections refer to the process of measuring, examining or testing the entire product (or service) or one or more components thereof. The results are compared to predetermined specification in order to determine if it is acceptable quality or not. Inspections can either be carried out by looking at every product/service produced. Sampling is a statistical method of quality control where a certain number of items are tested from the entire production batch. If the tested samples are of a certain quality (acceptable or not), it is assumed that all items will be of the same quality.

    Remember the business can only improve quality if they are aware that something is not right. Therefore it is in the interest of the business to ask customers for feedback and respond to improve the quality of the product and/or the service.

4. ***Benchmarking***
    Benchmarking is when the business looks at what is 'best practice' in the industry. The business' current performance is then compared to how it should ideally be done (best practice) and steps are then implemented to close this performance gap (between how it is done and how it should be done).

5. ***Financial ratios***
    Solvency, return on investment/profitability and liquidity are possible ratios that can be used to come up with a strategy/plan of action to improve the performance of the business.

6. ***Performance appraisals (360°) and self-evaluation***
    A performance appraisal is a tool used to plan, evaluate and improve the performance of employees.
    *   It is a planning tool because during the performance appraisal the employee and his/her manager discuss and agree on performance targets.
    *   It is an evaluation tool because at the next appraisal the employee evaluates his/her performance, while the manager also evaluates the employee's performance. Input may even be asked from all other relevant parties that the employee deals with while performing the job. This may include customers, suppliers, peers and subordinates. This is called a 360° performance appraisal.
    *   It is a feedback tool because the achievement (or not) of targets is discussed and action plans are developed to solve problems. If applicable, promotion opportunities and career paths are also discussed.

7.   *Continuous Skills Development*

We are living in a knowledge era. This means knowledge is the most important asset that any business can have. The business should strive to create a culture where employees are continuously growing and learning, because this will lead to continuous improvement in the functioning of the business. Without continuous development of employees' skills, the business will be in serious trouble. Just think how fast things are changing around us. New technology, changes in legislation, new products from competitors or changes in customer demand all necessitates staff to have new skills.

The business has to provide learning opportunities, but the employee also has to take responsibility for own personal development to ensure he/she reach their personal goals.

8.   *Teamwork*

There are a number of reasons why teamwork is important to the success of the business.
- Teamwork generates new ideas to improve the business.
- Team members may mentor one another or even just provide a soundboard to bounce ideas off.
- The collective team effort is what is going to make or break a business. Imagine how upset a customer will be if he/she is told the only person that can help is on leave ...
- In a team there are many different types of intelligence and two heads have always been better than one. One person's strength may compensate for another's weakness.
- Teamwork may allow for division of labour, where each person gets to focus on what he/she is good at.

BUSINESS STUDIES PAPER II: LOWER ORDER THINKING RUBRIC (60% WEIGHTING)						Question 1	Question 2
CRITERIA	**0**	**1**	**2**				
Format	Not meeting the correct standard	Partially correct format	Correct format				
	0	**1**	**2**	**3**			
Terminology	No use of business terminology	Isolated/limited use of business terminology	Good use of business terminology	Outstanding use of business terminology			
Content (number of relevant facts)	Maximum 50 facts. Divide by 2 to get mark out of 25. Marks are inter alia given for mentioning the fact, explanations of facts or statements, relevant examples; expansion of acronyms. NOTE: Listed facts that are not explained = max 4 marks (8 facts)						
Subtotal: (30 marks)							

BUSINESS STUDIES PAPER II – HIGHER ORDER THINKING RUBRIC (40% WEIGHTING)

If all SECTIONS have not been completed, the judgment is based on the amount of expected information.

E.g. A candidate substantiating one section well, but not answering the other cannot qualify for a 'majority of statements' mark.

CRITERIA	0	1	2	3	4		
Substantiation (justification for statements made)	No attempt at substantiation.	Very limited substantiation.	Less than half of the statements are substantiated.	The majority of the statements are substantiated.	The majority of the statements are thoroughly substantiated showing breadth and/or depth of understanding.		
	0	**1**	**2**	**3**	**4**		
Application to Context	Superficial reference based on the case study/context given. (Just keep mentioning the name of the business repeatedly without relevant examples).	Continuous reference is made to the case study/ context given with some applicable examples given.	Continuous reference is made to the case study/ context given with several examples that are fully integrated into the answer.	Examples are relevant to the case study/context given and fully integrated into the response showing understanding of the issues at hand. Reference is made to current affairs.	Examples are relevant to the case study/ context given and fully integrated into the response showing understanding of the issues at hand. Current affairs are fully integrated into the response.		
	0	**1**	**2**	**3**	**4**	**5**	**6**
Creative Problem Solving	No understanding of the problem and no solution given.	Identification of the problem and an incorrect/poor solution suggested.	Identification of the problem with breadth but no depth (superficial).	Good insight and understanding of half the problem with solutions offered showing depth of understanding OR less than half in breadth and depth.	Good insight and understanding of the majority of the problem(s) with solutions offered showing depth of understanding OR half in breadth and depth.	Good insight and understanding of the holistic problem with solutions offered which are fully discussed, showing understanding on all aspects OR the majority in breadth and depth.	Good insight and understanding of the holistic problem with solutions offered which are fully discussed, showing breadth and depth of understanding.
Synthesis	None of the criteria as listed below are met.	At least one of the criteria fulfilled.	Any two of the criteria fulfilled.	Any three of the criteria fulfilled.	Any four of the criteria fulfilled.	Any five of the criteria fulfilled.	All six of the criteria are fulfilled.

1 Introduction – did not just re-write question, but shows an understanding of the 'link' between the topics
2 Conclusion – this should be a logical affirmation of the points raised
3 Flow of thought, i.e. paragraphs leading into one another
4 Integration of topics given in the question
5 Integration of question with other business related topics to enhance the quality of the answer
6 Arguments are developed
SUBTOTAL: (20 marks)