



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2021

## **BUSINESS STUDIES**

### **MARKING GUIDELINES**

Time: 3 hours

300 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.**

---

**SECTION A****QUESTION 1      MULTIPLE CHOICE**

1.1	C	1.13	B
1.2	A	1.14	B
1.3	A	1.15	A or B
1.4	C	1.16	C
1.5	B	1.17	A
1.6	D	1.18	D
1.7	C	1.19	A
1.8	A	1.20	A
1.9	A	1.21	D
1.10	B	1.22	B
1.11	D	1.23	A
1.12	A	1.24	C

**QUESTION 2      BUSINESS STUDIES TERMS**

2.1	Acid-test Ratio or Current Ratio
2.2	Retrenchment
2.3	Marketing
2.4	Mission statement
2.5	Environmental Scanning
2.6	Profitability Ratios
2.7	Market share
2.8	Functional Conflict
2.9	Manpower planning
2.10	Employment Equity Act

**QUESTION 3      CHOOSE THE CORRECT TERM**

3.1	Value Chain Analysis	3.8	Manager
3.2	Resource-Based Approach	3.9	Accountability
3.3	Compromise	3.10	Consequence-based theory
3.4	Procedural fairness	3.11	Conflict management
3.5	Collective bargaining	3.12	Backward integration
3.6	CCMA	3.13	negotiation
3.7	Annual Training Report		

**SECTION B****QUESTION 4**

4.1 **List four management tasks that retailers such as Spar would use when rethinking their retail operations.**

- Planning
- Organising
- Leading
- Controlling
- Coordinating
- Communicating
- Delegating
- Motivating
- Decision making
- Discipline

**(Consider any other relevant facts on management tasks that retailers such as Spar would use when rethinking their retail operations).  
Mark the first four management tasks.**

4.2 **Explain how Spar could use the various entrepreneurial qualities as part of their decision-making process.**

- One of the most important characteristics of an entrepreneur is the ability to **identify an opportunity** with potential and to then pursue the opportunity, even if it may be **risky**. An entrepreneur needs to take risks to reap rewards.
- In order to identify an opportunity in a particular market, the entrepreneur has to **understand the target market** and he/she continuously needs to scan the internal and external environment to be proactive in identifying opportunities and/or threats.
- The entrepreneur has to know who the customers (LSM) are, their needs, and then be **willing to develop** or change the business plan to satisfy the customers' needs.
- An entrepreneur is an **opportunist**. The market/business environment may not always be favourable or fit in with his/her initial plan. The entrepreneur, therefore, must be able to anticipate market trends, identify the positives and use these to the advantage of the business.
- Starting a new business is **hard work** and takes **commitment and perseverance**.
- **Creativity** and **innovation** are often requirements to get a new business off the ground. Being different to that of a competitor (differentiation strategy) may lead to a successful business.
- The ability to **prepare** and **to implement a plan** to achieve goals is very important. But the entrepreneur must be realistic and proactive by developing a contingency plan to manage potential risks.
- He/she must have the ability to **convince** and **motivate** others to buy into the plan and follow him/her to achieve the desired goals.

- The ability to **evaluate** achievements and progress is crucial in order to initiate corrective measures if needed. The entrepreneur should be able to make **quick decisions** about opportunities as they arise.
- The ability to **communicate** clearly and accurately is critical in order to implement strategies to overcome challenges and thus capitalise on opportunities.

**(Consider any other relevant facts on how Spar could make use of various entrepreneurial qualities as part of their decision-making process.)**

- 4.3 **Define each of the managerial competencies listed below and briefly discuss how each of these competencies could be used by managers to ensure that Spar remains ahead of retail trends in South Africa.**

4.3.1 **Global Awareness**

**Define:**

- Performing managerial work for an organisation that utilises human, financial, information, and material resources from multiple countries and serves markets that span multiple cultures.

**Discuss:**

- A global awareness is much more than merely trying to understand political, language or cultural differences between countries to avoid making general assumptions about other people.
- It is more than the fact that exchange rates appreciate or depreciate and that this may have an impact on the cost of the product. While these issues are important, it is vital to appreciate that global awareness encompasses much more.
- The manager must understand that even if the business does not trade (buy or sell) directly with other countries, he must know that the business world is interrelated and interconnected and that suppliers may originate from a range of countries. It is possible therefore, that customs and values will differ between countries. An awareness of the entire supply chain is crucial.

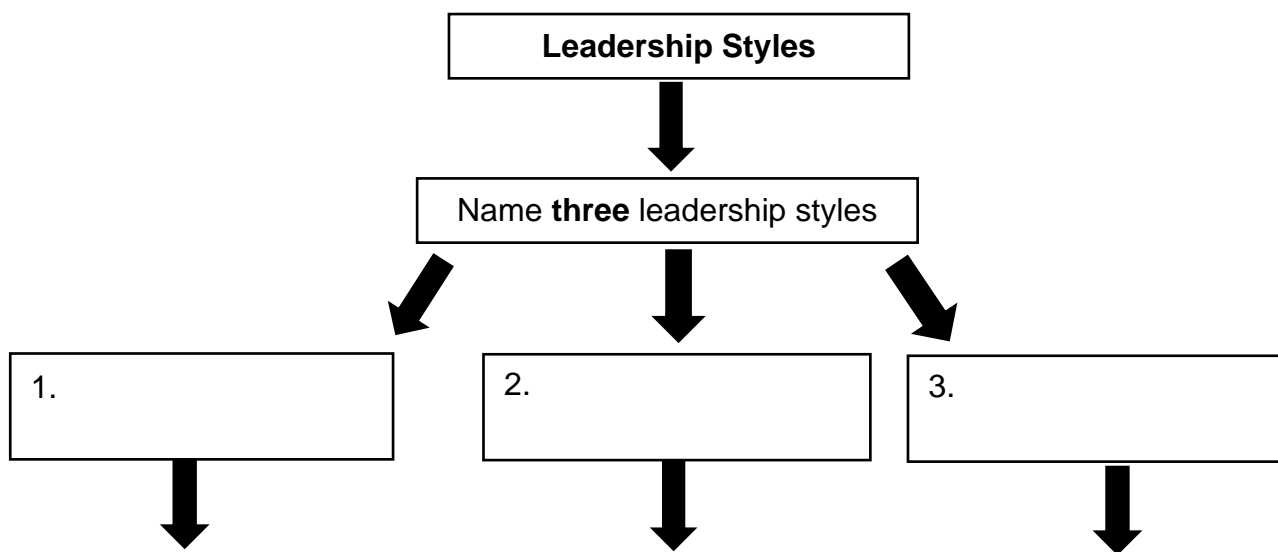
**4.3.2 Empowerment and Talent development*****Define:***

- Attracting and developing employees with the right skills and aptitudes remains a constant priority for our organisation and the companies in which we invest.

***Discuss:***

- The manager has to understand that empowerment and talent development is important, because it means the business is investing time and resources to assist with employees' development to achieve the goals and objectives of the business. When employees are empowered, and they have benefited from the development process, this is conducive to better morale and higher levels of motivation.
- Empowerment and talent development can be done in several ways:
  - By giving an employee a new skill through training.
  - By giving an employee new responsibilities and authority to perform a challenging new task, requiring him/her to think more broadly than before.
  - By giving an employee the freedom to choose how to do a task, provided certain pre-determined standards are met.
  - By monitoring performance and then giving constructive feedback.

**(Consider any other relevant facts how each of these two competencies could be used by managers to ensure that Spar remains ahead of retail trends in South Africa.)**

**4.4 Complete the flow diagram below on Leadership Styles.**

***Illustrate how Spar would make use of each leadership style in their daily operations.***

- **Democratic:** A manager that follows a democratic leadership style, allows subordinates to provide input and participate in the decision-making process. It is, therefore, not surprising that the democratic leadership style is also sometimes referred to as the participative leadership style. The advantage of this style is that it usually ensures "buy-in" and commitment from people involved in the process. However, a disadvantage could be that it may lead to slower decision making when the manager allows participation from all.
- **Autocratic:** An autocratic leader seldom allows for input from subordinates and makes all decisions. In certain circumstances this may be the best approach; if, for example, there is a crisis and quick decision making is required to solve a problem or to implement a strategy that may not be popular with all staff members. The disadvantage of an autocratic style is that employees often have a low morale as they feel undervalued by the manager.
- **Laissez-faire:** A manager that follows a laissez-faire management style believes that he/she should not interfere in the process of carrying out a task. This manager will tell employees what he/she expects from them but will allow them to do the task without interference. This management style may yield excellent results, if there is a highly skilled workforce, motivated to perform optimally.
- **Transactional:** The transactional leadership style can be described as an approach of "give and take", with the manager motivating employees to perform their tasks in return for possible (salary/bonus/other benefits). The problem with this style is that as soon as employees regard the reward as insufficient, they become demotivated which often results in labour unrest.

- **Transformational/charismatic:** The transformational leader is charismatic by nature. He/she will motivate employees by helping them to understand the meaning of their work. This type of leader places the emphasis on teamwork; he/she will make time to explain to the group "why they matter". This builds confidence and trust between employees and management, consequently the individual and group performance improves in terms of creativity, problem-solving and productivity. People are often inspired and motivated to such a degree that they surpass their own expectations. This happens more often if the manager not only leads their team, but also empowers team members to achieve their full potential.
- **The situational leadership style:** A combination of all of the above leadership/managerial styles. The manager will adapt the management style to whatever is required in the specific situation. If the situation requires disciplinary action to be taken, he/she will adopt an autocratic style. If the group of employees are artistic and do not respond well to too much structure, the manager may opt for a laissez-faire approach by simply advising what needs to be achieved. He/she thus avoids being too prescriptive about the method of achieving the goal. A democratic, transactional or transformational style will be implemented where it will yield the best results.

**(Consider any other relevant facts on leadership styles and how Spar would make use of each leadership style in their daily operations)**

4.5 ***A business like Spar is often required to deal with ethical dilemmas. Complete the flow diagram below.***

4.5.1

(a) Identify an ethical dilemma:

\_\_\_\_\_

(b) Explain the ethical dilemma identified in (a)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(

(c) Recommend a strategy that Spar could use to avoid the ethical dilemma identified in (b).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

4.5.2

(a) Identify an ethical dilemma:

\_\_\_\_\_

(

(b) Explain the ethical dilemma identified in (a).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(c) Recommend a strategy that Spar could use to avoid the ethical dilemma identified in (b).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



**Ethical Dilemmas****Conflict of interest**

- If the person awarding a tender knows the person who is submitting the tender, he/she should not make the final decision about who will get the tender but should disclose that it is a friend/family member submitting the tender and then withdraw from the tender allocation process.

**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 may 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 a position of power, abuses this power for personal gain, it is corruption. This may include receiving a bribe, giving a kickback (indirect bribe) to a supplier, misappropriating funds, or abusing an official position for personal gain.

**Unauthorised use of funds**

- Using business funds that are not authorised is the same as theft. People working in offices have more opportunities to get involved in this form of white-collar crime, than the workers in the manufacturing department.
- Even something that seems as innocent as a manager having an expense account, taking his wife for lunch and claiming it as a business expense, is guilty of unauthorised use of business funds. Someone, who has a petrol card to pay for business travel and then uses the card for private use, is spending money not authorised for that purpose.

**Inappropriate gifts**

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

**Sexual harassment**

- Unwelcome physical contact.
- Verbal conduct such as sexual advances, sex-related jokes, unwelcome enquiries about a person's sex life and unwelcome whistling/body language directed at a person or group of persons.
- Non-verbal conduct such as sexual gestures, indecent exposure or display of sexually explicit pictures and objects.
- When a more senior employee promises a reward in exchange for sexual favours.
- Employees may also not engage in any of the above activities with customers, suppliers or any person who deals with the business.

**Employment/labour issues**

- Employees abusing sick leave.
- The abuse of the internet or email may include:
  - Employees who visit porn sites.
  - Employees who make confidential information available to people who should not have access to the information.
  - Employees who spread rumours or other damaging information about the business or a fellow employee.

- Employees who spend work time on Facebook or other social media sites.
- Employees spending time on personal emails during work hours and employees who send emails, which could bring the business into disrepute, to other people.
- Taking business stationery home for private use.
- Verbal abuse of staff members by a manager and the verbal abuse of a colleague or manager by an employee are all unacceptable behaviour.

**Pricing of goods**

- Price fixing occurs when competitors agree to charge the buyers a predetermined price. One of 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 a business charges a high price simply because there are no competitors to keep the prices low, it is seen as unethical.

**"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.

**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 imitated and sold as the original.
- Bootlegging is the illegal production and/or distribution of a product. A shebeen that does not have a liquor licence is guilty of bootlegging. Another example is when someone sells cigarettes on the black market to avoid paying import duties or other taxes.

**Taxation**

Tax avoidance and tax evasion.

- Tax avoidance is legal and ethical, because the business finds legal ways to reduce the tax burden, i.e. deducting legal expenses before the taxable income is calculated.
- Tax evasion on the other hand is illegal (and therefore unethical) because the business does not declare all its income and lies about expenses in order to pay less tax.

**(Consider any other relevant facts on identification/explaining/providing a strategy for the ethical dilemmas)**

**4.6 Define the term "employee motivation".**

- Employee motivation is defined as the enthusiasm, energy level, commitment and the amount of creativity that an employee brings to the organisation on a daily basis. Motivation is behaviour and one needs to channel this behaviour in order to achieve desired goals and results. Employee motivation is all about how engaged an employee feels in tandem to the organisation's goals and how empowered he/she feels.
- Motivated employees are an asset to an organisation, they are directly proportional to an organisation's success. Motivation is intangible, difficult to measure and extremely difficult to control, but very easy to facilitate if done right. It is all about intention, intensity, and perseverance.

**(Consider any other relevant facts on *Define the term "employee motivation"*)**

**4.7 4.7.1 List two monetary motivational factors:**

- Increase salary or wages
- Bonus
- Promotion (monetary part – remuneration for example fringe benefits)
- Profit sharing
- Company Equity

**(Consider any other relevant facts on *two monetary motivational factors*)**

**4.7.2 List two non-monetary motivational factors:**

- Status of a new position
- Appreciation and recognition – acknowledging a person's inherent value and giving positive feedback based on results or performance
- Work-life balance – more balanced division of one's time and focus between work and family or leisure activities
- Delegation – allocating more responsibility
- Working conditions – better office
- Job enrichment – additional tasks
- Job security – keeping your job

**(Consider any other relevant facts on *two non-monetary motivational factors*)**

**QUESTION 5**

5.1 ***Discuss how Pick n Pay could make use of the following strategies to grow their online business segment.***

(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. For example, BP garages enter into an agreement with Pick n Pay to allow Pick n Pay space in the BP shop to sell Pick n Pay products. This way when people fill up with petrol and want to buy lunch, they may decide to stop at BP, because it affords them a choice to do both activities simultaneously, in ONE place.
- When two or more businesses merge or when a takeover occurs, the individual businesses no longer exist separately; the different businesses combine to form one new business.

(b) ***Horizontal integration strategy:***

- Horizontal integration is a competitive strategy where business entities operating at the value chain level and within the same industry, merge to increase the production of goods and services.
- The overall gain from a horizontal integration is an increase in the market power and minimal loss for being non-integrated.
- Companies that engage in horizontal integration may realise economies of scale, reduced production costs, synergy in marketing, increased revenue, among others.
- As with any other business strategy, horizontal integration does not always lead to increased value and profitability as expected. Instead, it can be the procedure for dismal performance, devaluation, inefficiency, stunted economic growth, and reduced competitiveness.

**(Consider any other relevant facts on how Pick n Pay could make use of the following strategies to grow their online business segment).**

**5.2 Considering the growth Pick n Pay has seen through its online segment; there may have been several challenges faced by Pick n Pay.**

**The table below highlights some of these possible challenges Pick n Pay could have encountered. Complete the table.**

**5.2.1 Challenge: Attracting and hiring the right employees.**

**A: Identify the business environment to which the challenge belongs.**

Microenvironment

**B: Explain the effect of the challenge on Pick n Pay.**

- Hurting your bottom line  
Even the right candidate is expensive: the upfront costs of interviewing, travel and hotels, training, testing.
- Lowers employee morale  
Increased stress, which could lead to low team moral.  
Disrupted workflow, diminished productivity, and increased customer dissatisfaction.
- Creates more work for team members  
Terminating a bad hire isn't the end of that mistake. Between termination and finding a suitable candidate to fill the vacancy, other team members typically have to pick up the slack.
- Increase employee turnover  
For all the reasons above, choosing the wrong candidate creates an environment that can lead team members to seek out new jobs, multiplying the problem you're trying to resolve. People can only pick up the slack of a vacant position for so long. And the damage of poor leadership or management level is even greater. Rather than simply decreasing a team's productivity and lowering morale, bad leadership leads to mismanagement of whole teams or departments that can ripple throughout a business.
- Wastes your time  
The extra hours you put in should be to grow your business, pursue new ideas, and develop with your team.

**C: Devise a strategy on how Pick n Pay can respond to the challenge.**

- Develop a clear employer brand  
Your employer brand is what will set you apart from other companies and show candidates why they should work for you.
- Create job posts that reflect your company  
Your job post is the first impression the candidate will have of you. You want to be sure to come off as organised and professional while still embracing your brand.
- Use social media  
Social recruiting is becoming increasingly popular as companies begin targeting millennials. Social recruiting is simply using social media to find talent, advertise jobs, and communicate with potential candidates.
- Conduct awesome interviews  
It is important to remember that interviews go two ways. While you are interviewing your candidate, they are also interviewing you.

**5.2.2 Challenge: High level of rivalry in the online shopping market.****A: Identify the business environment to which the challenge belongs.**

Market environment

**B: Explain the effect of the challenge on Pick n Pay.**

- The intensity of rivalry among competitors in an industry refers to the extent to which firms within an industry put pressure on one another and limit each other's profit potential. If rivalry is fierce, then competitors are trying to steal profit and market share from one another
- High intensity of competitive rivalry can make an industry more competitive and thus decrease profit potential for the existing business. In comparison, low intensity of competitive rivalry makes an industry less competitive. It also increases profit potential for the existing business.

**C: Devise a strategy on how Pick n Pay can respond to the challenge.**

- Find and then solve your customers' pain points.  
One likely way to beat your competition is to address the needs of your shared target audience better than your competition can.
- Find a niche in the market via storytelling and specialisation.  
It's tempting to daydream about what it would be like if you had no competition at all. When you build a niche, you come much closer to achieving this ultimate goal.
- Set competitive pricing.  
One of the easiest ways to beat your competition is to offer more affordable pricing. To determine the ideal price point, you need a clear picture of what your competition's goods or services are priced at. Research which competitors offer the best value. Then you need to determine if what you are offering brings more value to the table and thus should be priced higher.
- Change your business to stay ahead of your competition.  
When you are running a business, change is constant.
- Provide great customer service.  
Providing great, and memorable, customer service is a great way to build loyalty among your customers and differentiate yourself from the competition.

**5.2.3 Challenge: Customers' level of disposable income, being reduced due to the Covid-19 pandemic.****A: Identify the business environment to which the challenge belongs.**

Macro environment

**B: Explain the effect of the challenge on Pick n Pay.**

- Business have been forced to reduce sale of some items.
- Business have had to adjust operating hours.
- Business have had to carry the costs of additional cleaning materials and in some cases fogging, which has had an impact on the operating expense of a business.
- Customer trends have changed during this time, they may no longer be purchasing want items, but only need items.

**C: Devise a strategy on how Pick n Pay can respond to the challenge.**

- Business may have to look at offering products that were not previously sold.
- It is important that businesses pay special attention to customers, who are already loyal, by offering additional specials to maintain their loyalty.
- Lower prices of basic necessities.
- Follow all legal protocols around the virus, to ensure no bad publicity.
- Purchase cleaning material in bulk, take advantage of economies of scale.

**5.2.4 Challenge: Transport infrastructure in South Africa.****A: Identify the business environment to which the challenge belongs.**

Macro environment

**B: Explain the effect of the challenge on Pick n Pay.**

- A business will need to be sure that customers are able to reach the business.
- Transport infrastructure could affect the delivery of goods, as trucks are not always able to deliver in all areas.
- Quick delivery of goods is not always possible, due to the lack of transport infrastructure.
- Customers may be hesitant to travel to a store, where there is no sound transport.

**C: Devise a strategy on how Pick n Pay can respond to the challenge.**

- Business will need to plan its location carefully, ensuring that they are accessible to both customers and suppliers.
- Business may need to relocate to areas that are more easily accessible.
- Plan transport routes carefully to ensure sufficient time for delivery, where infrastructure may not be good.

**(Consider any other relevant facts on identifying/explaining/devising a strategy on how Pick n Pay can respond to the challenge)**

- 5.3 ***Pick n Pay is looking at growing their online business segment. Discuss how the management of Pick n Pay could use the various business functions to ensure overall quality of their online segment.***

#### **Purchasing function**

- The purchasing function buys goods and services needed by all departments in the business. This includes three types of purchases:
  - Goods bought for own use, e.g. Pick n Pay will buy a fridge to keep the Cokes cold.
  - Goods bought in order to resell them, e.g. Pick n Pay will buy trading stock (Coke and chips) to sell at a profit.
  - Goods bought for processing, e.g. Pick n Pay will buy raw materials or semi-finished goods that are processed into goods to satisfy needs. An example is the purchasing of flour and meat to make pies.
- Goods and services will be bought from different suppliers. The most suitable suppliers to supply these goods and services must be found.
- Orders must be placed and confirmed to ensure the delivery of the correct goods. When delivery occurs, it must be checked to verify the quality of the goods, precise and adequate quantities, the goods are undamaged.
- One of the most important functions of the purchasing department is to develop a system to control inventory (trading stock) to maintain optimum stock levels. As far as possible, stock shortages must be prevented. If the business runs out of stock, it gives competitors an opportunity to "steal" customers.

#### **Production function**

- Production is the combination of the factors of production (natural resources, labour, capital, and entrepreneurial skill) in order to provide the right product at the right place and time in the quantity demanded and at the price the consumer is prepared to pay for the product.
- The production function has as its aim to create utility of form to transform raw materials into a product that can be used to satisfy needs.
- It is important to keep manufacturing cost as low as possible, while maintaining quality and standards.
- Continuous product design is important to satisfy the needs of consumers. The production and marketing departments should combine efforts to design the product and packaging in such a way that it will attract customers to buy the product.

#### **Financial function**

- To start a business, the business needs capital. Capital is either contributed by the owners or borrowed and used to buy and/or to produce goods and services.
- Business needs to pay attention to the following:
  - Maximise profits
  - Increase profitability
  - Ensure liquidity
  - Remain solvent



**Human Capital (HC) function/Human Resources (HR) function**

- Labour is an important factor of production. The other three factors of production are capital, raw materials, and the entrepreneur.
- Management and labour (trade unions) must have a good relationship to ensure the business reaches the goal of maximising profitability.
- Unless workers are happy and motivated, productivity and profitability will suffer.

**Marketing function**

- A product must satisfy the needs of consumers. This product must be sold at a price that the consumer is prepared to pay. Goods must be distributed to a place that is convenient for the consumer and the consumer must be informed (marketing communication) about the availability of the product.
- To determine what product is in demand, what price consumers are prepared to pay, where (place) the product must be sold and what the best method is to communicate with the target market, the business will do market research.
- Market research helps the marketing function to identify the target market based on variables such as age, income, gender, marital status, hobbies/interests and occupation.

**Public Relations function**

- Public relations involve all the activities that influence the opinions of the public.
- Public relations management is a continuous, long-term interaction between the business and external stakeholders. It can only be successful if conducted honestly, and with integrity.
- The primary aim of the Public Relations Department is to create and maintain a favourable image of the business with all relevant interest groups and stakeholders.

**Administrative function**

- 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 is stored and made available to management as and when needed. In short, the administrative function, handles all the paperwork and record keeping in the business.
- One of the most important aspects of keeping administrative records up to date is to comply 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 administration department must ensure they meet all legal requirements in this respect.

**General Management function**

- To Plan for the future of the business. Organise to get all staff and materials (resources) needed in the business, lead workers to make sure they are working to help the business to make a good profit and to control all activities in the business to make sure operations are proceeding according to plan.

- Additional management tasks include:
  - The 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.

**(Consider any other relevant facts that *discuss how management of Pick n Pay could use the various business functions to ensure overall quality of their online segment*)**

**5.4 *Pick n Pay has published the following statement on their website:***

***"Our sustainability strategy is linked completely to our business strategy"***

***Refer to the statement above and assess how Pick n Pay could make use of the Triple Bottom Line approach to ensure the sustainability.***

#### **People/Social**

- Companies that follow the triple bottom line way of doing business, think about the impact their actions have on all the people involved with them (stakeholders).
  - This can include everybody from farmers supplying raw materials, to the CEO of the company.
- Everyone's well-being is taken into consideration. The company offers healthcare, good working hours, a healthy, safe place to work, opportunities for advancement and education, and does not exploit their labour force.
- In some cases, the "people" bottom line can also include the community where the company does business.

#### **Planet/Environmental**

- Triple bottom line companies take action to reduce or eliminate their ecological footprint.
- They strive for sustainability, recognising the fact that "going green" may be more profitable in the long run.
  - But it is not just about the money. Triple bottom line companies look at the entire life cycle of their actions and tries to determine the true cost of what they are doing regarding the environment.
  - They take action to reduce their energy usage, dispose of any toxic waste in a safe way, try to use renewable energy sources and do not produce products that are unsafe or unhealthy for people and the planet.

**Profit/Economical**

- The financial bottom line is the one that all companies share, whether they are using the triple bottom line or not.
  - When looking at profit from a triple bottom line standpoint, the idea is that profits will help empower and sustain the community, and not just flow to the CEO and shareholders.

While you may or may not consider the Triple Bottom Line appropriate for your business, it makes sense to recognise the way in which the workplace is changing and consider whether you need to adapt your approach to business to reflect this.

**(Consider any other relevant facts on how Pick n Pay could make use of the Triple Bottom Line approach, to ensure the sustainability)**

**5.5 Discuss the purpose of the FTSE/JSE Responsible Investment Index.**

- Offer investors more opportunity to integrate ESG (**Environmental, Social, and Governance**) considerations into their investments.
- Transparent and consistent methodology that measures risk across a variety of ESG areas.
- Criteria is based on information that is publicly available and does not accept that data privately provided by companies improves credibility and enhances transparency.
- Allow clients the ability to extract data at multiple levels to access and apply it in a variety of ways.

**(Consider any other relevant facts on the purpose of the FTSE/JSE Responsible Investment Index).**

**QUESTION 6**

- 6.1 ***To ensure that new Game concept stores remain ethical, they will need to pay special attention to the Consumer Protection Act 68 of 2008 (CPA).***

***Discuss areas of the Consumer Protection Act 68 of 2008 (CPA) that could influence the operations of Game concept stores.***

**The right against discriminatory marketing practices**

- Suppliers are not allowed to give preferential treatment to any group of people when marketing or selling their goods or services or when setting the price for the goods or services based on elements such as geographic location, socio-economic status, gender or race.

**The right to privacy**

- Consumers have the right to refuse unwanted direct marketing (via sms, telephone, email, letters) and the business may not continue to market the goods and services to the consumer if the consumer has indicated it is unwanted.

**The consumer has the right to choose**

- A cooling-off period of five business days will be in place to allow the consumer to cancel the transaction, if the transaction was not initiated by the consumer, i.e. if the transaction was the result of direct marketing.
- The consumer has the right to shop around for the best deals and no consumer is obliged (forced) to buy additional goods or services linked to the original transaction (bundling).
- Consumers have the right to request authorisation before maintenance or additional repairs are carried out and will not be liable to pay for such repairs or maintenance services, without prior approval.
- Suppliers are not allowed to charge consumers for drawing up cost estimates or quotations.
- The consumer has the right to return defective goods (within a reasonable time frame) and request a full refund for these goods.

**The right to disclosure of information**

- According to the CPA, the language in which contracts are written should be appropriate for the group at which the contract is aimed, i.e. the language should be easy to understand by the target market.
- Suppliers have to display the prices of goods and services in full view of the consumer and where two prices are displayed for the same product, consumers have the right to demand paying the lower price.

**The right to fair and responsible marketing**

- A supplier may not use bait-marketing. This means the supplier may not advertise a product/service in order to attract the customer to come to the store and then not have the advertised product/service available at the advertised price or quality or quantity.

**The right to fair and honest dealing**

- Suppliers may not attempt to mislead or deceive the consumer when advertising products or services.
- No supplier may use physical force, harassment or unfair tactics when marketing goods or services, collecting payment for goods or services or when recovering goods from consumers.

- Overbooking and overselling is not allowed by the Consumer Protection Act (CPA). This means the seller may not accept payment for goods or services if it is reasonably expected that it will not be possible to supply the goods/services to the consumer.

**The right to fair value, good quality and safety**

- A consumer may return goods to suppliers within six months if the goods are of inferior quality, unsafe or defective.
- The supplier must refund, repair, or replace the unsafe or defective product.

**Consider any other relevant facts on discussion areas of the CPA that could influence the operations of Game concept stores).**

**6.2 *Game concept stores need to ensure that they meet the needs of their customers.***

***State THREE factors that could influence the buying decision of customers:***

- Economic Factor
- Functional Factor
- Marketing Mix Factor
- Personal Factors
- Psychological Factor
- Social Factors
- Cultural Factors
- Political Factors
- Geographical Factors
- Seasonal Factors

**Consider any other relevant facts that could influence the buying decision of customers.**

**6.3 *Describe how Game Stores may have adjusted their service marketing strategies (people, process, and physical evidence) to respond to the change in the Game stores concepts.***

**PEOPLE**

- Whether the business renders a specific service or a hybrid service (service combined with a physical product), it is probable that people will always be part of the selling equation. The exception would be a vending machine or similar concept.
- A business that sells a service or promotes a service that forms part of the product on offer has to realise that service delivery is not the same process or similar to the product. It is the service levels at these venues, not the product which will differ markedly.
- The attitude, behaviour, skill, morale and motivation levels of the employees are just some of the variables that may have a noticeable effect on the service experienced.
- The customer's perception of the quality of service may directly influence the degree of his/her satisfaction and future purchase intentions.

- Because the employee is the face of the business, the business must make certain that there are sufficient control mechanisms (positive rewards or negative punishment) in place, to ensure contact employees will protect and promote the brand and the reputation of the business.
- The quality of the after-sales service is vital to secure customer loyalty to the store/product.

### **PROCESS**

- When defining the process as an element of service delivery, it refers to the operating systems and procedures that must be designed and managed to make the service experience as pleasant as possible for the customer.
- The process means that part of the service-offering which the customer experiences. This may include how quickly the customer is greeted, time spent in queues, helpfulness of staff members when the customer has a query, how many times an employee "passes the buck" before the customer is assisted and whether the business follows up to evaluate customer satisfaction.

### **PHYSICAL EVIDENCE**

- The physical evidence associated purely with service includes factors such as the store's presentation, and the appearance of the staff members. Also included are other tangible elements such as business cards, brochures, letterheads, signage used on the premises and even the website on the internet.
- The way in which the above mentioned is used to market the business, by relaying a message to the consumer, will depend on the type of business.

***Consider any other relevant facts on how Game Stores may have adjusted their service marketing strategies (people, process, and physical evidence) to respond to the change in the Game stores concepts.***

#### **6.4 Explain the role of the Advertising Standards Authority (ASA).**

- ASA is the national body to which anyone can complain when they deem advertising and/or marketing to be unacceptable.
- ASA is a source of information and assistance in the field of marketing communication for official agencies and statutory bodies. Officials can consult one authoritative independent body that is close to both industry and public sentiment.
- ASA is a responsive communication channel that can take consumers' concerns to the entire media and marketing sectors.
- ASA is a fast and affordable means of resolving disputes, whether the complaints are from fellow marketers or consumers.

***(Consider any other relevant facts for the role of the Advertising Standards Authority (ASA).)***

**6.5 Explain the role of the Human Capital Function under the following headings:**

**6.5.1 Recruitment:**

The main focus of the recruitment process is to attract the most competent talent. There are a number of internal and external options available when recruiting potential candidates for the job. The task of the recruitment process is to determine the most effective communication channels to be used for the recruitment message.

The business should, among others, consider the following internal and external options, then select the most appropriate option for the type of employee desired.

Internal recruitment is done by transferring an existing employee to a new position or by promoting an existing employee.

The business may invite existing employees, who may be suitable candidates for the vacancy, to apply for the job. This is done by searching employee files to identify potential candidates based on skills, qualifications and experience. Word of mouth may work if a manager recommends an employee for the position.

An alternative, to sourcing internal staff files, is to post the position on an intranet or notice board within the business and to invite interested staff to apply.

Current employees may also be asked to recommend someone outside of the business for the position. This is a combination (hybrid) of internal and external recruitment.

If it is not possible (or desirable) to recruit employees from within the company, the business has to recruit externally. This can be done by using one or a combination of the following techniques:

- The position is advertised via an employment agency. Some agencies operate exclusively on the internet, while others may use the internet as well as traditional advertising media. The business may decide to advertise the position in newspapers, trade journals or at trade shows.
- Depending on the qualifications needed for the position, the business may approach schools, colleges, universities and other educational institutions to seek suitable candidates.
- Although it does not happen very often with more senior positions, suitable employees may be sourced by looking at CVs of casual applicants or "walk-ins".
- Employees may also be "head hunted". This means a suitable employee who works for a competitor is identified and asked to apply for the vacant position.

**(Consider any other relevant facts for explaining recruitment as a role of the Human Capital Function with regards to recruitment.**

### 6.5.2 **Induction:**

Induction is training (orientation), given to all new employees to help them to become productive role players in the business as soon as possible.

There is no "one-fits-all-recipe" for a good induction program. There is, however, standard information that should be included in an effective induction program. This may include:

- A written copy (hardcopy or electronic) of the business' policies and procedures.
- Some form of organogram/organisational chart to identify the various role players in the organisation.
- A face-to-face introduction to the manager and other staff members in the department.
- A tour of the facilities to show the new employee where the bathrooms, meeting rooms, canteen and Human Capital offices are in case he/she has any questions. It may also be useful to show the new employee how to log a call in the event of a problem with the technology.
- Precise instructions outlining how the new staff member should perform certain tasks must be issued. Any unique/unusual requirements/tasks should also be clarified.
- Allocating the new employee, a "buddy or mentor", in case questions arise or there is uncertainty about job-related issues, allows the new recruit to settle in more quickly.

**(Consider any other relevant facts for explaining induction as a role of the Human Capital Function with regards to recruitment)**

### 6.5.3 **Remuneration/employee benefits:**

There are a number of ways in which employees should be rewarded for their hard work in the business. Remuneration and additional benefits that have a monetary value are part of reward systems to enable employees to maintain a certain standard of living. It is also one of the biggest operating expenses that the business will incur. Salaries and benefits are an important issue from both the employee's and the business' point of view.

Before the different ways to calculate salaries and other benefits offered to employees are discussed, it is necessary to distinguish between the following: salaries, wages and paying commission to employees.

- Permanent or temporary workers may earn salaries. A salary is a fixed amount, which is paid to the employee (once a month) on pre-determined date.
- Wages are usually paid on a daily or weekly basis. It may be a fixed sum, calculated on the basis of the number of hours worked, or at a piece rate (according to output).
- Commission is a form of remuneration used to motivate the employee to deliver more. It is often used in sales where the employee receives a percentage of the sales as commission. This



means the more sales the employee makes; the more commission may be earned; it is an incentive for the employee to improve his/her performance.

**(Consider any other relevant facts for explaining remuneration as a role of the Human Capital Function with regards to recruitment)**

**6.6 *Game is a large South African employer and it is important that they fully understand the various South African Labour Legislations.***

***For each of the Acts below, discuss the purpose and the implications (positive or negative) of the legislation on the employer or employee.***

**6.6.1 *Skills Development Act 97 of 1998 (SDA):***

***Purpose:***

- To help South Africans to improve their qualifications and skills and to ensure economic development is achieved and people have better standards of living.
- To introduce learnerships and skills programmes to boost vocational learning (i.e. the workplace becomes a place of learning).
- To promote entrepreneurship through training and improved skill levels.
- To improve employment opportunities for unemployed people by giving them skills needed to find or create their own employment.
- To encourage employees to improve their skill levels by becoming involved in training.

**(Consider any other relevant facts on the purpose of Skills Development Act)**

***Implications (positive or negative) of the Skills Development Act 97 of 1998 (SDA) on the employer or employee:***

- Funding for training is obtained from Skills Development Levies, regardless of what the business plans to spend on training. Skills are thus not compromised when training budgets are reduced.
- 20% of the Skills Development Levy may be claimed back simply by submitting a Work skills program (WSP) and Annual training report (ATR). This encourages businesses to plan and implement training programs.
- The Sector Education and Training Authorities (SETAs) overseeing training in the different sectors are not always effective and the result is that there are large sums of money that should be spent on training that simply sit in some of the SETAs' bank accounts.
- The amount that may be claimed back for submitting the Work skills program (WSP) and Annual training report (ATR) has been reduced from 50% to 20% with effect from 2013. This makes it more difficult for businesses to claim back their money, because not just any training will qualify to warrant the additional 30% reduction.

**(Consider any other relevant facts on the implications of Skills Development Act)**

**6.6.2 Labour Relations Act 66 of 1995 (LRA):*****Purpose:***

- Enforce the fundamental rights relating to labour issues that are guaranteed in the constitution.
- Promote economic development, labour peace, social justice and democracy in the workplace by providing a framework for collective bargaining to solve labour disputes.

**(Consider any other relevant facts on the purpose of the Labour Relations Act)**

***Implications (positive or negative) of the Labour Relations Act 66 of 1995 (LRA) on the employer or employee:***

- The LRA ensures that international labour standards are applied in the South African labour context.
- The LRA gives clear guidelines on how labour disputes can be resolved.
- Trade unions have a lot of power in South Africa, and it appears that they sometimes forget that they are meant to protect the rights of employees and not become involved in politics and other issues under the pretext of implementing the LRA.

**(Consider any other relevant facts on the implications of Labour Relations Act)**

**6.6.3 Basic Conditions of Employment Act 75 of 1997 (BCEA):*****Purpose:***

The BCEA is aimed at ensuring that employees are treated in a fair manner in the workplace and through this, the BCEA promotes economic development.

The BCEA protects workers against unfair labour practises.

No employer may include anything in an employment contract not allowed under the BCEA. Even if the worker signs the contract, that condition of employment will not be valid in terms of the law.

**(Consider any other relevant facts on the purpose of the Basic Conditions of Employment Act)**

***Implications (positive or negative) of the Basic Conditions of Employment Act 75 of 1997 (BCEA) on the employer or employee:***

- It protects vulnerable employees such as part-time, farm and domestic workers.
- It provides mechanisms to set minimum wages for farm and domestic workers (sectorial agreements).
- It prevents child labour.
- It protects employees against unreasonably long working hours, especially in areas such as the transport and security industries.
- It ensures employees are treated in a fair manner.

**(Consider any other relevant facts on the implications of Basic Conditions of Employment Act)**

**SECTION C****QUESTION 7**

***Fact marks are allocated as per the rubric for:***

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

**Possible content to be included:**

**Investment**

When one looks at different investment opportunities available, it may at times be overwhelming to decide which investment opportunity best suits a person or business. There are criteria that can be used to determine the most suitable investment option required at a particular point in time.

The following criteria will be used to evaluate each of the investment options:

- Risk
- Return on investment
- Time frames

**Risk:**

- A high-risk investment is expected to deliver a higher return on investment **IF** the investment succeeds. A high-risk investment could also result in a big loss if the investment fails. This may be illustrated using a simple example: Someone takes his/her money to the casino and bets all of it on "red" at the roulette table. If the ball lands on red, the person gains a HIGH return on the investment. There is an equal risk that the ball may land on "black" and then all the money is lost and there is a ZERO return on the investment.
- A further idea relating to risk is the concept of diversification. Diversification means all eggs are not kept in one basket. Consequently, not ONE of the investment vehicles (options) below is used to hold all reserves, but rather that a COMBINATION of these investment options is used to spread risks over different assets.
- The investor has the option to choose the degree of risk relative to the most suitable investment option for and his/her financial position at that point in time.

**Return on investment (ROI):** can be described as a tool to measure the efficiency of the investment. It is an indicator of what the investor will get back over and above the original capital investment made.

**Time frame (period of investment):** the longer the period of investment available to the investor, the greater the risks are that the investor can afford to take. If someone wants to make provision for his/her retirement and the person is currently 20 years old, he/she has another 45 years before retirement to recover any potential losses. If someone, however, is already 50 years old and wants to make provision for retirement, there is much less time before the retirement age; this person clearly cannot afford to take too many risks regarding his/her investments.

## Investment options/instruments/vehicles/types

### Equities/shares

#### Description:

Equities are also known as shares in a company. Some companies are listed on the JSE Ltd (hereafter just called JSE), but other companies are unlisted.

When we consider equities or shares, we are going to look at those in listed companies, because information on the shares' performance is regularly available. If the company is unlisted, it will not make information on the financial performance of the business available to anybody but shareholders, banks, creditors and SARS – not to the general public. Without this financial information, it will be impossible to evaluate whether the investment has delivered acceptable returns.

The owners of shares (equities) each own a portion of the business. There are two "options/methods" to become a shareholder in a company listed on the JSE:

- The shares were bought from the company when shares were issued the first time, thus the person who bought the shares contributes capital to the business.
- The shares were bought on the JSE from a previous shareholder. The money paid for the share is not going to the business, but to the person who sold his/her shares. Shares bought and sold on the JSE have no impact on the capital available to the business.

#### Risk:

- The JSE (and other stock exchanges in the world) have strict rules for companies to list on the stock exchange to protect investors and (hopefully) decrease the risk of investing in these listed companies. Despite this, equities are still seen as a moderate to high-risk investment.
- *Blue-chip shares* are shares in high-end companies (top of the range) on the stock exchange and the risk of acquiring shares in a blue-chip company is smaller than having shares in another company. The ROI in these blue-chip companies is usually higher than in other companies because they are normally more successful financially.
- Investors usually take smaller risks than people speculating with shares (see discussion under time frame to understand the difference between these two groups of people).

#### Return on investment (ROI):

When evaluating the ROI of shares bought in a listed company, there are two factors that contribute to the ROI:

- Increase in share price
- Dividends

Shareholders will buy shares in the company with the expectation that:

- The share price will increase over a longer period of time (capital growth)
- Good dividends will be generated. Dividends are the profits of the company that are divided among the shareholders and are not taxed in the hands of the shareholder in South Africa.
- A combination of the above occurs, as this usually helps to outperform inflation.

What will determine the price of a share on the stock market? The answer to this question is quite simply: market forces, or otherwise known as demand and supply! As with any other commodity that we buy, the price is determined by how many people want the product (demand) and how much of the product is available (supply).

The question that now begs to be answered is: What determines demand and supply of a particular share on the JSE? This answer is slightly more complicated. The following factors will all impact on the demand for the share and therefore also the share price. This means it will also have an impact on the overall return on the shareholders' investment (ROI):

- The level of confidence in the state of the economy. When the economy is doing well, investors will feel positive about investing on the JSE and they will be eager to buy shares (bull market). If investors are pessimistic and they anticipate losses, they will sell their shares (bear market).
- Government policies or new legislation will impact on the overall confidence in the economy of the country and therefore the share prices. If, for example, there is speculation about nationalisation (state takes over ownership of private assets), shareholders will want to sell their shares and the share prices will drop.
- Industry performance will affect all the companies listed in that industry. Some industries may be more attractive to investors than others. If an industry has recently had negative publicity due to problems (strikes, out-dated technology and unethical behaviour) or positive publicity owing to upcoming events (tourism industry will benefit if a world cup event is won by South Africa), share prices in that industry may fall or increase.
- Financial performance of the business: sales, profits, financial ratios such as solvency, liquidity, return on investment, and the dividends declared. The better the financial performance of the business, the more likely the company is to declare good dividends and as a result the share price is likely to increase.
- Management and the public's confidence in the management team. The higher the confidence in the management team, the higher the demand will be for the shares and share prices will increase.
- Social issues surrounding the company may, for example, include its image in terms of environmental-friendly manufacturing processes or the degree of involvement in CSR. This may either have a positive or negative impact on share prices.
- Legal issues such as pending lawsuits or allegations of price fixing may have a negative impact on the share price.
- Media coverage increases public awareness of the above developments, thereby creating certain perceptions of the country, industry and/or company with investors and potential investors; this in turn will have a direct impact on share prices.

**Time frame of the investment:**

- Some people prefer to invest their money in shares with no short-term need to see huge capital gains. The investor will invest in blue-chip shares where there is capital growth (increase in share price) in the long term, and where dividends earned from the share portfolio are often used to buy more blue-chip shares.
- People that speculate with shares approach the matter differently. Speculators buy shares in companies that (in their opinion) will have a quick and significant increase in the share price. The speculator will then sell the shares when there is an opportunity to make a profit based on a higher share price. The speculator is not really concerned with dividends.

## Debentures

### Description:

- Debentures are also sometimes called bonds (not to be confused with a mortgage bond, which is a loan to buy fixed property).
- A debenture is a letter of credit (an "IOU") that a business sells in order to raise borrowed capital for large projects.
- Debentures are usually not secured by specific assets. So, if the company cannot repay the debt (debenture) and it is liquidated, the debenture holders will not have a preferential claim to assets. Having said this, people will be hesitant to buy debentures in companies that are perceived to be at a high risk of liquidation.
- The debenture holder will receive interest on the amount of the debenture. If the business issuing the debenture is perceived to be a high risk, a higher interest rate will have to be offered to convince people to buy the debentures.
- Debenture holders can sell the debenture at any stage to other interested parties on the JSE.
- Types of debentures:
  - A redeemable debenture is repayable on a predetermined date.
  - An irredeemable debenture is never paid back by the company but will last indefinitely with the debenture holder getting interest.
  - A convertible debenture will be converted into shares at a predetermined date in future.

### Risk:

- When the debenture is sold, it is often sold at a fixed interest rate, which has benefits and risks. Should interest rates drop, the debenture holder will be in the advantageous position that he/she will earn the higher interest rate on the debenture than what the banks offer. If, however, interest rates increase then the debenture holder may miss out on earning higher interest rates offered by other opportunities. If the debenture is sold at a variable interest rate link at prime), this risk does not exist.
- Because debentures are usually unsecured financial instruments, there are always risks of the business going bankrupt, with a consequent loss for the debenture holder of his/her investment. The degree of this risk will be determined by the company's financial strength; and of course, the degree of risk linked to the projects/type of activity with which the business is involved.
- It carries a higher risk than investments at banks, but a lower risk than an investment in shares, because creditors rank higher than owners to recoup their money in the event of liquidation.

### Return on investment (ROI):

- The company that issues the debenture is legally obliged to pay interest. This increases the potential for a return on investment when compared to shareholders, because the company does not have to declare dividends if the financial position does not allow it.
- There is no capital growth associated with debentures, just a steady stream of interest.
- Because debentures are unsecured debt, the business has to offer a higher interest rate to potential investors to compensate them for the higher risks.
- Remember interest income is taxable (above the threshold) and after tax is paid, the ROI on debentures seldom beats inflation.

**Time frame of the investment:**

- Debentures may be used as a long-term financial instrument to earn interest until such time as the debenture is redeemed.

**Retirement Annuities and pension funds****Description:**

- A retirement annuity (RA) is a policy that aims to provide an income to the person when he/she reaches the age of 55 (not before but can be paid out at a later stage). A monthly premium is paid and when the RA pays out, it will be in a lump sum, combined with a monthly income. The amount of money paid out when the RA matures, will depend on the period the premiums were paid and/or how high the premiums were.
- The government cannot provide for all citizens to maintain a decent standard of living on old age pensions, thus it wants to encourage people to make provision for their own retirement. For this reason, tax relief is given on RA premiums.
- Pension funds are created when all employees, belonging to the particular pension fund, pool their contributions with a Pension fund administrator. This administrator then invests the funds in such a manner that it will (hopefully) grow and exceed inflation. When people reach retirement, they then receive a monthly pension (income) from the fund. Contributions made to pension funds are deducted from salaries before taxable income is calculated. The reason, once again, is that government wants to encourage people to make provision for their own retirement income.

**Risk:**

The risk associated with both a RA and a pension fund will depend on how and where the administrators have invested the contributions of members.

We can also look at risk from a different perspective. Think how pension funds or RAs can help individuals to manage their risk of not having sufficient income to survive once they have retired (when they no longer earn a salary).

Both RAs and Pension funds are tools to make provision for an income when the employee stops working and goes on pension. Unfortunately, there are many people who do not make sufficient provision for their pension and as a result they cannot maintain their standard of living. The following points reflect some of the reasons why people may not be financially secure when they reach retirement age:

- People wait too long before starting to make provision for retirement. Who wants to think about saving money for something 30 or 40 years in the future?
- People generally live longer due to good medical care and, therefore, need to make provision for a longer time after 65 (retirement age), when they will be without a salary.
- Getting older may also mean more money is needed for healthcare. Additional provision should be made for these costs.
- People do not always consider the loss of benefits when they retire. They are happy if their salary, at the time of retirement, matches the pension payment. What, however, about the loss of a company car or housing subsidy when retirement is reached? One would in such a case actually need MORE money from the pension fund/RA than the last salary earned.

- When people change jobs, the pension built up at the previous job may be paid out. People should immediately reinvest this money in the new pension fund, rather than spending it on luxuries. Unfortunately, many do not reinvest their money.
- Pension funds also have the option/benefit to help members to manage risks in terms of death and/or disability, as it offers cover for both these events.

**Return on investment (ROI):**

- The ROI will be determined by the prudent decisions of the investment manager that handled and invested the contributions. There are no guarantees and even if a specific ROI is guaranteed by the RA fund/Pension fund, it is important to compare this to inflation. Note: The figures regarding ROI given by the funds usually sound better than what they really are, because the funds make "predictions" of what they are hoping to achieve.
- Also be aware that most financial instruments (pension funds and RA included) will have administrative costs and management fees which will reduce the ROI.

**Time frame of the investment:**

From the above discussion under "Risk", it should be clear that provision for retirement, be it in the form of a RA or a pension plan is something that should be started as soon as possible and maintained for the entire 40 or 45 years that a salary will be earned as an employee.

**Endowments****Description:**

- Endowments are a form of long-term saving. The saving can be in the form of a lump sum investment and/or monthly contributions.
- The investor will get the full amount after a predetermined period when the policy matures (usually 5 to 10 years), or in the case of death, the next of kin will receive the investment immediately.

**Risk:**

- When taking out an endowment policy, the investor can choose the risk profile he would like to have – varying from high risk in an equity fund to a lower risk where a more balanced investment approach is followed.
- If the investor has chosen to invest monthly contributions, it is possible (with some insurers) to add a Contribution Waiver, which means if the investor suffers from a serious illness or becomes disabled, consequently being unable to continue contributing to the investment, the insurer will pay the monthly contributions on behalf of the insured. This is a form of risk management that the insured can take out in the event of adverse circumstances.

**Return on investment (ROI):**

- The ROI will depend on the risk profile chosen.
- There are management and admin fees that are deducted from the savings amount that will reduce the ROI.

**Time frame of the investment:**

The investment is usually for a period of between 5 and 10 years. It is thus a long-term savings plan.



## Offshore investments

### Description:

- When one decides to invest locally, the decision has to be made about which investment vehicle (as discussed in this chapter and numerous other options available) is most suitable.
- The same choices have to be made when investing in a different country (offshore).
- Offshore investments are, therefore, quite challenging, but worthwhile investment options, if prudent choices are made.

### Risk and Return on investment (ROI):

Some of the reasons for choosing to invest in an offshore account may include:

- Diversification (when referring to offshore investments) means that risks are spread over different countries. Some countries are considered to have more stable markets (developed countries) than others (emerging markets).
- Changes in exchange rates may make it more attractive to invest in another country. The rand has shown a tendency to depreciate against the major currencies of the world – US dollar, British pound, and the euro. If the currency depreciates (get weaker) it is favourable for someone with an investment in a foreign country. To illustrate how a depreciating Rand can have a good ROI as a result, consider the following example: Suppose John has invested R5 in the USA at a time when the exchange rate was 1 \$ = R5. This means he will have an investment = 1\$. The exchange rate has since depreciated to 1 \$ = R10. If John cashes his investment in now, he will get R10 for the original R5 that he invested.
- There may be investment opportunities in other countries that do not exist in South Africa. South Africa does not have oil and if an investor feels oil is a good investment to make, he/she will have to buy shares in an oil company listed in another country.
- Someone may consider the option of emigration to a different country. Because of the exchange control mechanisms in place in South Africa, it is only possible to take a limited amount of money out of the country each year. It may then be a good idea to begin an investment portfolio in the foreign country.

### Time frame of the investment:

The only limitation in terms of time is the amount of money that may be taken out of the country every year owing to exchange control by the Government. Offshore investments, however, may be used as a long-term or short-term investment strategy.

## Unit trusts

### Description:

- Unit trusts can be described as a "basket of shares" that is trading on the stock exchange.
- When buying unit trusts, the investor will indicate the type of risk profile that is acceptable to him/her.
- Unit trusts are managed by a fund manager that is responsible for looking after that specific fund.

- A unit trust fund can be diversified over various industries on the JSE or between various companies within a particular industry. The person buying the unit trust decides which option he/she wants to invest in.
- Unit trusts can be bought with a lump sum, monthly contributions, or a combination of the two.

**Risk:**

The options available to choose from may vary from a high-risk equity fund where all funds are invested in shares, to a Stable fund where risks are reduced by diversifying investments between equities, international markets and even investing in some low-risk money market instruments.

**Return on investment (ROI):**

- A good unit trust investment will outperform inflation over the medium term of 3 to 5 years.
- The rate of return will depend on the risk option that was chosen but will ultimately depend on how well the fund manager has invested the money.

**Time frame of the investment:**

Investing in unit trusts is usually a medium to long-term investment.

**Collectibles****Description:**

- Examples of collectables may include antiques, coins, artwork, stamps, jewellery and Kruger Rands.
- When collectables are chosen, it is important to have a good understanding of the market where these items are bought and sold.
- The market for collectables in South Africa is limited when compared to the rest of the world, but with technology this is becoming less of a problem.

**Risk:**

- To deal in collectables requires a high level of knowledge and expertise.
- Any damage to something like a stamp collection, artwork or antiques will drastically diminish the value.

**Return on investment (ROI):**

- If the article is truly a collectable, the value of the article will increase over time (provided there is no damage).
- The disadvantage of this type of investment is that there is no monthly source of income for the investor.

**Time frame of the investment:**

- The markets for true collectables are not really volatile and this type of investment generally shows capital growth over a long period.
- Of course, it is possible to make a profit over a short period of time if an item was bought at a low price, e.g. an unknown artist suddenly becomes famous because he/she was "discovered". Or, a piece of antique furniture, bought at a pawn shop that does not know the value of the article, is subsequently sold at a handsome profit. Generally, these finds are the exception to the rule and sheer luck for the investor.

**Notice deposits****Fixed deposits****Description:**

- A fixed deposit is opened with the bank when a fixed amount of money is invested for a fixed (predetermined) time at an interest rate that can either be fixed or changes as the prime rate changes.
- Fixed deposits are long-term investments and the money may only be withdrawn when the maturity date is reached or when the investor dies. If the investor wants to withdraw the funds before the maturity date, a penalty will be charged.

**Risk:**

Money invested with the bank generally has a very low risk. The investment can only be "lost" if the bank is liquidated. It has happened in South Africa that banks have been liquidated in the past, a relatively rare event. However, take note of the situation where African Bank was placed under curatorship in Augustus 2014 to understand that even money in the bank carries some risk.

**Return on investment (ROI):**

- The interest rate offered on a fixed deposit will differ from bank to bank. It will also depend on the amount of money invested. Generally, the longer the time frame and the higher the amount invested, the higher the interest rate will be. Despite this, it can only be hoped that the fixed deposit (even with cumulative interest) will exceed inflation. Unfortunately, it is often not the case.
- The only capital growth achieved with a fixed deposit is if interest on the fixed deposit is capitalised (reinvested). Cumulative interest is then earned on the original fixed deposit and the interest that was reinvested.
- If the investor decides that the interest must be paid out to him/her to supplement his/her income, there will be no capital growth.
- The return on investment with a fixed deposit is usually low, but then, so is the risk associated with the fixed deposit.

**Time frame of the investment:**

Fixed deposits can be from a year to 10 years (or even longer). The longer the time frame of the investment, the higher the interest rate usually is.

**Money market accounts****Description:**

- A Money market account is a form of short-term investment and it is becoming increasingly popular.
- It is easy to gain access to money market accounts in the short-term because they are very liquid. An example of a money market account is a call account, where money is invested "indefinitely". The investor only has to give notice that he/she wants to withdraw funds in the future. A 32-day call account has a notice period of 32 days.

**Risk and Return on investment (ROI):**

Money market accounts have a low risk but offer a lower interest rate than longer-term investments.

The interest rate on money market accounts usually outperforms normal savings accounts.

This makes them attractive options for short-term investors.

**Time frame of the investment:**

A money market account is a short-term investment option, ranging in time periods of about a month to a year.

**Insurance**

When people talk about insurance, they usually refer to both insurance and assurance. There is, however, a difference between these two concepts and as Business Studies learners, it is important to understand this difference:

- **INS**urance is **IN** case something happens (e.g. fire, theft, flood, etc.). These events may or may not take place, but in order to manage the risk **IN** case they do occur, the insured wants to be **IN**demnified (placed in the same financial position he/she was in before the incident).
- **AS** sure as we are human beings living on planet Earth, we will all retire after we have worked, or it is possible that death may come first. We can manage the risk of our loved ones being without income if we die, or the risk of being unable to maintain a decent standard of living after retirement, through **AS**surance.

By taking out insurance or assurance, the insured (an individual or business) pays a monthly premium to transfer the risk to the insurer.

**Insurable and non-insurable risks**

Some risks are UNinsurable and some of them are so expensive to insure, that it is UNaffordable to insure against these risks. Some of these risks are:

- War and associated risks are generally uninsurable as insurance companies regard it as a risk that should be managed by the Government (it should be prevented).
- One risk, that is generally considered to be uninsurable, is bad debt. There is, however, insurance available against bad debt, but it is one of those risks that is almost unaffordable.
- Business risks, such as price fluctuations due to time intervals (between the time that the goods are ordered and the time they are received), are not covered by means of a traditional insurance policy. The business may, however, decide to hedge against such risks, but that is not part of our syllabus.
- If trading inventory becomes obsolete or outdated due to changes in fashion, it is a business risks that is not insurable.
- Technology changes at quite a rapid pace and constant improvements are made to machinery and the production processes. A business cannot take out insurance against machines becoming outdated. Leasing, however, is an option to prevent being stuck with outdated equipment.
- No one can take out insurance against committing an illegal act. For example, I cannot take out an insurance policy against a penalty imposed for a traffic offence.

**Types of insurance****Compulsory insurance****Unemployment Insurance Fund (UIF):**

- The Unemployment Insurance Amendment Bill (2013) changes certain issues that were covered by the Unemployment Insurance Act of 2001.

- The Unemployment Insurance Fund (UIF) gives short-term relief to workers when they are unemployed, or if they are unable to work because of maternity leave or illness. It also provides relief to the dependants of a deceased employee who has contributed to the fund.
- Contributions are made by both the employee and employer. 1% of the gross salary is deducted from the employee's salary and an equal amount is contributed by the employer who is responsible for paying this amount to SARS. The ceiling amount (limit for the purposes of calculating contributions) is currently (2015) R14 872 per month.
- The following people are excluded from UIF insurance:
  - employees who work less than 24 hours a month.
  - employees who earn commission only.
- Civil servants and foreigners working in the country were previously excluded. Now some foreigners are covered by UIF. Employees on learnerships are also included as per the 2013 Amendment.
- Domestic workers are INCLUDED in UIF and the employer must ensure he/she registers with the Department of Labour.
- The maximum amount that will be paid to the unemployed worker is 58% of the monthly salary, provided he/she has already contributed for at least 4 years to UIF. The claim will not be paid for more than 238 days. In the case of maternity leave the maximum number of days that the mother can claim for is 121 days.

### **Compensation for Occupational Injuries and Diseases Act (COIDA)**

- This was previously known as the Workmen's Compensation Fund.
- If an employee is injured at work or becomes sick or disabled as a result of his/her job, the person is entitled to claim compensation from the COIDA. It is also possible for families or dependants of a breadwinner to claim if he/she has died as a result of a work-related accident or disease.
- Every employer registers with the Compensation Fund and pays an annual fee based on the employee's earnings and the risks associated with that particular job.
- The amount of compensation paid to an employee is calculated as a percentage of the salary that the employee was earning at the time.
- When will claims not be paid?
  - Privately employed domestic workers cannot claim, but domestic workers employed by a hotel or guest house may claim.
  - Members of the South African National Defence Force or South African Police Services are not covered by COIDA, because they have their own separate fund.
  - If the employee is booked off for three days or less due to the incident, the fund will not pay.
  - If the claim is older than 12 months from the date of the incident or when the diagnosis was made, automatic rejection of the claim occurs.

### **Road Accident Fund (RAF)**

- The Road Accident Fund (RAF) is compulsory insurance that covers all users of South African roads.
- The RAF assists people injured in a motor vehicle accident and will pay for rehabilitation and medical claims.
- The RAF provides indemnity to the person guilty of causing the accident; this prevents the person injured, or his/her family, from lodging a claim against the guilty party.

- The RAF will pay in the following instances:
  - Any person injured in a motor vehicle accident, whether it is the driver, a passenger or a pedestrian.
  - The family of a deceased victim may also claim.
- Contributions to the fund are included in the petrol/diesel price.

**Non-compulsory insurance:**

There are a variety of insurance policies available to businesses and individuals. Different insurance companies may offer short-term insurance policies that differ from one another. What is given below is a generalisation, as it is acknowledged that differences between policies may exist.

When insurance is taken out, the insured pays a premium to the insurer (e.g. Sanlam, First for Women, MiWay, Auto and General, Outsurance, etc.) to cover the risk of a specific event that may occur. Premiums for these insurance policies will depend on the personal needs, the risk profile of the customer, but also on the value of the assets that are insured.

**Fire insurance:**

- Although fire insurance is listed in some books as a separate insurance policy, insuring against fire will usually form part of other insurance policies:
  - Fire damage to the structure of a house or building is usually included in the insurance made compulsory by banks when they finance a bond for the building.
  - Fire causing damage to a vehicle will be included in the vehicle insurance.
  - The content of the house or building will be covered against fire by the householder's insurance.
- The more flammable a product (thatch roof or inventory such as wood, paper, gas, etc.), the higher the risk and therefore the higher the premium.
- The nature of the surrounding buildings may also have an impact on the risk and premium. If the building (house or business) that is insured is next to a garage (selling petrol or diesel) there will be a high risk associated with the insurance and therefore, a high premium payable.

**General Business insurance/Commercial insurance**

Business insurance is probably one of the most important decisions the entrepreneur or manager has to consider in order to protect the business from losses caused by unforeseen circumstances. These circumstances may include theft (shoplifting), burglary (forced entry), public liability if a customer slips on a wet floor and sustains an injury while in the shop (called **liability insurance**), and damages from fire or elements of nature.

Insurance contracts relating to insurance for inventory (trading stock) will include an 'iron safe clause'. This requires the insured (business) to keep a record of stock on hand in a safe that is fireproof and that cannot be destroyed by the fire. It is no longer required to keep back-up records in a fireproof safe on the premises, as technology enables stock records to be kept offsite.

The business also has to be aware that in extreme circumstances there may be a total or partial loss of income if the business cannot operate while repairs are being done. This loss of income can also be covered in a commercial insurance policy.

## Household insurance

A household policy usually includes all types of assets that form part of every household that is at risk due to events such as burglary, accidents or losses caused by fire, lightning, floods, etc. Assets may range from furniture, electrical items, clothing, toys, sports equipment, and tools to gardening equipment. If the insured has visitors, their belongings may also be covered if provision was made for it in the policy. **Liability insurance** is usually also included as part of the household insurance. This will cover the homeowner against losses or injuries sustained by people visiting or working on the premises (e.g. a dog biting the domestic worker).

## Vehicle insurance

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

- **Fully comprehensive:** Fully comprehensive insurance means the insured's car and the other vehicle will be repaired in the case of an accident. Damage caused by fire will be covered or if the car is stolen the insured will be indemnified (put in the same financial position than before the loss occurred). It is important to remember that items such as expensive sound systems, laptops and other expensive items must be specified separately to avoid these assets not being covered by the insurance policy. Insurers can work out a tailor-made solution to cover the individual needs of the insured.
- **Third-party, fire and theft:** The older the vehicle, the less the value. If a vehicle is relatively old, it may not be financially viable to continue paying fully comprehensive insurance, because the chances are the insurance company will write off the vehicle if it is damaged and not pay out a decent value. In such a case, if the driver (of the old vehicle) is to blame for an accident that caused damage to another very expensive car, at the very least, the damage to the other car (third party) should be paid by his/her insurance company. This type of insurance also pays out if the car is stolen or damaged in a fire.

We have already mentioned that the premium paid on insurance will be determined by the value of the asset and the risk. It is interesting to note that male drivers under the age of 25 are classified as a very high risk and that their car insurance premiums are usually very expensive!

## Money in transit insurance

If a business handles a lot of cash, it may be prudent (wise) to take out Money in transit insurance to cover any potential losses that may occur between the business and the bank. Some businesses prefer not to take this risk and will outsource the transportation of the money to a third party such as a Coin Security company (which will definitely have this type of insurance).

## Fidelity insurance

Fidelity insurance is taken out to protect the business against financial losses caused by dishonest employees. Theft of money or fraud may be covered. If there are only one or two people in the business handling money or working with finances, the policy may be taken out to cover individual employees (their names are specified on the policy). If a large number of staff members need to be covered, a floating policy may be taken out where specific positions (jobs), rather than individual people are covered.

**Total: 300 marks**

**BUSINESS STUDIES: LOWER ORDER THINKING RUBRIC (60% WEIGHTING)**

CRITERIA	0		1		2		Section C
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).						
Sub-total: (30 marks)							

**BUSINESS STUDIES: 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	Section C
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.	
Application to context/industry	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.	
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.
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 – don't just re-write questions but show 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.						
<b>Sub-Total: (20 marks)</b>						
<b>TOTAL</b>						