

# **Grade 12 Business Studies – Revision pack (summary/notes)**



# CHAPTER 1- Teamwork and Conflict Management

## Types of conflict:

- **Functional conflict** – non-aggressive stimulate creativity use to brainstorm to come up with a better solution
- **Dysfunctional conflict** - aggressive conflict people refuse to work together and the task is compromised

## Reasons for conflict due to workload

- **ROLE OVERLOAD**  
Occurs when one member (often willingly) takes on more work than they can cope with
- **ROLE CONFLICT**  
When more than one member wants a certain role often the leader role
- **ROLE AMBIGUITY**  
Occurs due to lack of clarity between roles that members play

Advantages of conflict	Disadvantages of conflict
✓ Creates an awareness of the problem	✗ If not managed could lower staff morale
✓ Stimulates creative thinking	✗ Could lead to inappropriate behaviour
✓ May help understand the problem better	
✓ May lead to collaboration where the focus is on working together and not on the problem	
✓ May motivate people to give input where they previously felt apathetic	



## TOOLS TO USE IN MANAGING CONFLICT

### 1. STIMULATING FUNCTIONAL CONFLICT / DEVIL'S ADVOCATE

- helps prevent a group think
- a person purposefully criticises a proposed plan in order to stimulate creative thinking

### 2. NEGOTIATION

- two people trying to talk through a problem to get to agreement

### 3. SMOOTHING

- Temporary method differences are ignored and focus is placed on what people have in common this may actually make to conflict worse over time.

### 4. FORCING

- A person in a position of power forces a solution to the conflict on subordinates this is done in an autocratic environment and can lead to resentment

### 5. AVOIDANCE

- Pretend the conflict is not happening or have the attitude that it is not worth the effort to argue
- Sending someone else to sort out the problem for you
- This often makes the conflict bigger

### 6. COMPROMISE

- Democratic style of handling conflict where both parties have equal power
- Situation of give and take
- Usually ends up with one person always giving into the other and this leads to resentment

**Other reasons for conflict:**

Change	Lack of communication	Inclusivity and cultural diversity
Resource allocation	Personalities and emotions	Values and ethics
Inner conflict		

**How to resolve inner conflict:**

1. Identify the inner conflict
2. Refer person to the correct department
3. The extent of the intervention depends on the intensity of the problem.

**Skills a manager should have to deal with conflict:**

- Ability to deal with change
- Tolerance regarding inclusivity and cultural diversity
- Communication skills
- Ability to act and think strategically
- Emotional intelligence to deal with different personalities and emotions
- Open communication and training to help overcome misunderstandings

**Conflict resolution steps:**

- Negotiation -two parties sit down and try to come up to a compromise by themselves
- Conciliation – third person gets involved but only to facilitate the conflict
- Mediation – third person gives advice
- Arbitration – third person makes the final judgement

**THIRD PARTY INTERVENTIONS**

- **Conciliation:** 3<sup>rd</sup> party facilitates so that both parties get their say
- **Mediation:** 3<sup>rd</sup> party gives advice and suggestions
- **Arbitration:** decision is take away from conflicting parties and 3<sup>rd</sup> party makes the decision.
- **con-arb process:** speedy one stop process of conciliation and arbitration that takes place in one day  
compulsory in: dismissals under probation unfair labour practice under probation
- **CCMA:** Commission of Conciliation Mediation and Arbitration  
Any labour dispute can be settled by the CCMA its main function is to prevent strikes.
- **WPF: Work place forums** a group of workers that are elected to represent the workers on issues with management. e.g., merit increases, restructuring, training issues
- **Employer Organisation:** provide the employer with experts on industrial relations when required. assist with ;contracts, discipline and grievances, dispute resolution, employment equity plans
- **Trade unions:** handle and reduce conflict between employer and employee allows for collective bargaining.

## CHAPTER 2: Professionalism and Ethics

### **Questions a manager would have to think about when decision making:**

1. What is the law and do I agree with it?
2. What about choices regarding economic and social issues not covered explicitly by legislation or where the legislation is enforced?
3. Issue of self interest vs interest of the business?

### **Code of Ethics versus code of conduct:**

<b>Code of Ethics</b>	<b>Code of Conduct</b>
Umbrella concept defining morals, principles and values under which an organisation operates.	A more specific concept outlines behaviour for proper business practice..

### **Code of Ethical conduct:**

- Ethics and values are difficult to prescribe, differ from cultures and people.
- Code of ethics explains values, ethics & beliefs of organisations policies, lays down standards of acceptable behaviour.
- Code gives consumer a sense of protection & confidence.
- Code of conduct includes professionalism, social justice, human rights etc.

### **Ethical issues in the business world:**

- 1. Employee conflict of interest** – can occur if the employee faces a moral conflict which is when their personal beliefs clash with the ethical values of a business. **OR** a person is in a position to derive personal benefit from actions or decisions made in their official capacity.
- 2. Inappropriate gifts** - given to a potential decision-maker with the intention of swinging his/her decision, commonly known as corruption. These gifts may also be linked to sexual harassment.
- 3. Sexual harassment** - Unwelcomed and uninvited sexual advances, both physical or verbal; normally from an authority figure to a subordinate.
- 4. Unauthorised use of funds** - includes fraudulent invoices or payment requisitions, forged signatures, unauthorized electronic payments, skimming accounts.
- 5. Stealing from the company** – unsolicited taking or use of business items or funds
- 6. Firing an employee for whistle blowing** – firing an employing for reporting unethical behaviour.
- 7. Insider trading**- The illegal practice of buying and selling shares on the stock exchange with the advantage of having “insider” access to confidential information.
- 8. Piracy**- The unauthorised and illegal duplication of products protected by patents or copyrights
- 9. Counterfeiting**- the act of copying or imitating and trying to pass it off as the original.
- 10. Bootlegging** – the illegal distribution of a product at a fraction of the genuine items price
- 11. Divulging confidential information or trade secrets**
- 12. Terminating employment without following proper procedure**
- 13. Unethical advertising**

**Ethical Theories:**

- **Consequence-based theories** – (Look at the results) The consequence of the action determines whether it is right or wrong. E.g Robin Hood
- **Principal-based theories** – (Predetermined rules) One’s values will determine what is right or wrong. Strong personal and moral boundaries.
- **Narrative-based theories** – (Stories) Different stories are used to lead to an understanding of right and wrong.
- **Utilitarian theory:** What is right is that which is right for the greatest number of people.
- **Virtue-based theory:** A character of a person is judged rather than his actions.

**Why should business have business ethics?**



- Employees are more productive and creative if they find their work meaningful and if they are able to maintain a healthy balance between a professional and personal life.
- Enable conditions are created when the business does more than merely stay within the law, which is not always enough.
- In the context of deregulation (removing restricting laws), businesses need to demonstrate that they can act as responsible citizens without being forced to do so.
- Increased globalisation leads to businesses operating across national boundaries.

**Levels of Business Ethics:**

1	<b>Individual</b>	Cheat on expense account, accept a bribe, plagiarism
2	<b>Organisational</b>	Ask employee to perform unethical act, pressure groups to overlook wrong-doings.
3	<b>Professional</b>	Accountant advising client to lie about taxes, Doc giving medication regardless of harmful side-effects.
4	<b>Societal</b>	Laws, norms, customs differ between society, sport on religious holidays, bribes.
5	<b>International</b>	Int. companies involved in violation of human rights (sweat shops), Economic sanctions imposed on a country.

<b>Private Sector</b>	<b>Public Sector</b>
<ul style="list-style-type: none"> <li>• Eg Businesses in the private sector are expected to act ethically according to industry standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Government acts in the best interest of society.</li> <li>• Government are humans therefore errors can creep in.</li> <li>• Government are trying to implement strict anti-corruption policies.</li> <li>• Code of conduct aims at assisting gov officials when they are unsure.</li> <li>• “Disclosure” – distance yourself from process when decisions are made.</li> </ul>

## **CHAPTER 3: CSR and Corporate Governance**

### **Difference between Corporate Social Responsibility (CSR) and Corporate Social Investment (CSI).**

- CSR – managements obligation to protect and promote the welfare of all stakeholders.
- CSI – the actual resources that are invested in these stakeholders.

### **Implications of CSR for BUSINESSES**

<b>Positive</b>	<b>Negative</b>
<ul style="list-style-type: none"> <li>• Can serve as a marketing strategy and promote the image of the business</li> <li>• Can create a competitive advantage – good publicity and improved reputation</li> <li>• May attract experienced employees and help retain staff</li> <li>• May help to attract investors as investors are conscious on the importance of CSR</li> <li>• Government will enforce the issue through legislation if it is not implemented voluntarily</li> <li>• Tax rebates</li> <li>• Higher rating on the JSE SRI</li> </ul>	<ul style="list-style-type: none"> <li>• The community that is being supported may not actually be able to support the business</li> <li>• Smaller enterprises find it difficult to implement CSI programmes</li> <li>• CSR can distract businesses from their core business functions</li> <li>• Company loses out on profits as money is spent on CSR</li> <li>• It is difficult to accurately measure the effectiveness of social investment</li> <li>• It is difficult to determine the exact needs of the communities</li> <li>• Managers may not be trained and lack experience to handle social programmes.</li> </ul>

### **Implications of CSR for the COMMUNITY**

<b>Positive</b>	<b>Negative</b>
<ul style="list-style-type: none"> <li>• Supports the business by purchasing its products.</li> <li>• Standard of living may increase</li> <li>• Improves the welfare of society</li> <li>• The quality of life of communities is improved</li> <li>• Involves employees in community projects</li> <li>• Better educational facilities are established in poor communities</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution of scarce CSR resources may result in discrimination- who is worthy of getting these resources?</li> <li>• The benefits of the programme may not filter to the intended persons within the community</li> <li>• Programmes may not satisfy all the needs of the community</li> <li>• Creates dependency</li> <li>• Sustaining projects is difficult</li> <li>• Spending money on CSR means the business has to recover it somehow, which will lead to higher prices and inflation – affects the community.</li> </ul>

### **Factors that have contributed to the need for CSR in South Africa:**

- Inequalities of the past have resulted in a large number of illiterate adults
- Cycle or poverty
- A large portion of the population is still living in third world circumstances
- Crippling effects of the HIV/AIDS epidemic

- South Africa's limited water supplies
- Technological advancements have left many unemployed
- Many business have had to close down and many people have lost their jobs as a result of Covid-19 and the associated lockdowns.

### **Poverty**

- This is the state of having little or no money and few or no material possessions.
- **Extreme poverty** – living under R25 per person per day. Battle to cope with daily life.
- **Moderate or subsistence poverty**- have some sort of meagre income but they face chronic financial hardship and lack many of the basic necessities of healthy living.

### **Triple Bottom line reporting**

Profit should no longer be the only thing that businesses focus on. They should focus on the following:

1. Profits (economic prosperity)
2. Planet (environmental sustainability)
3. People (Social responsibility)

### **Global reporting initiative**

- An independent institution that have made it their mission to develop an acceptable guideline on sustainable reporting focusing on Economic, environmental and social activities of the business.
- The GRI is the most widely used sustainability-reporting model.

## **KING CODE**

A code of guidelines /principles intended to emphasise good business practice.

### **Need for the code**

Examines the company's commitment to:

- How company has both positively and negatively affected the community.
- How the company is intending to sustain positive aspects and eliminate negative aspects

### **A governance framework**

- Set out as a code of principles and practices
- RSA has adopted a apply or explain approach
- It is the duty of the stakeholders to act in good faith toward decisions and actions.
- The JSE has made it **compulsory** for all listed companies to comply with the king code.

### **Link between king code principles and the law.**

- Good governance is not separate from the law
- All stakeholders need to comply legally with the way they do business
- It is important that structures and procedures are put in place with appropriate checkpoints to ensure and enable key stakeholders to act with legal responsibility.
- ✓ Duty to act with care, skill and diligence.
- ✓ Fiduciary duty – acting in good faith and honesty

### **Primary characteristics of good governance**

- **TRANSPARENCY:** acting in a visible manner that will hold up to public scrutiny
- **INDEPENDENCE:** avoidance of any influence that will affect our decisions
- **ACCOUNTABILITY:** to take account with full details of an event
- **FAIRNESS:** treating with equality with no bias towards a particular group.
- **INTEGRITY:** how accountable are you for those affected by your actions / are you doing business in an honest and truthful way
- **DISCIPLINE**
  - ✓ Self-discipline: personal level of integrity
  - ✓ Market discipline: two main factors =willingness to invest in a company and sanctions for bad behaviour.
  - ✓ Regulatory discipline: penalties for those who don't do the right thing there to reinforce self-discipline and promote high levels of integrity.

### **Promoting ethical and responsible business decisions:**

To make ethical and responsible decisions a company should not only comply to all legal obligation but should consider the reasonable expectations of all their stakeholders in the community in which they operate.

Companies should look at:

- Clarifying the standards of ethical behaviour suitable for a board of directors and all other key stakeholders and to encourage conforming to these standards
- Complying with all legal requirements
- Have reasonable expectations of their stakeholders.

### **Duties and responsibilities of directors:**

- ✓ Act with skill and care when formulating policies
- ✓ Act in good faith and honesty (fiduciary duty)
- ✓ May not abuse power given to them, but have to use the power to enhance the interest of the business and never themselves
- ✓ Pre-empt risks
- ✓ Ethical leadership
- ✓ Set up audit committees
- ✓ Directors must disclose relevant information in integrated reporting

## **SUSTAINABILITY as part of the King Code**

Set up structures to enable the community to start becoming self-sufficient.  
Teaching skills so the community can continue to run it themselves in the long term.

### **The social sustainability pillar**

Fair treatment of society.

Strives for Fair income distribution; access to income and education; distribution of costs and benefits; Accesses to prices; Chance for all generations.

### **The environmental sustainability pillar**

Business activities that are concerned with the degradation of the environment. E.g. carbon footprints, soil depletion, air & water pollution etc..



#### **4PS of sustainable design:**

PRODUCT: finding less harmful ways to produce

PROCESSES: assessing the value chain analysis

PRACTICE: company practices of daily activities. eg waste disposal energy usage.

PREMISES: way in which the building is designed.

The economic sustainability pillar measures both **growth** and **development**.

**Growth** = physical development in size

**Development** = improvement or the unfolding of potential that could lead to success

#### ***JSE – SOCIAL RESPONSIBILITY INDEX (SRI)***

- Done to recognise the contributions of companies to social and economic reform.
- It supports the KING II report.
- Evaluates companies in terms of transparency, fairness and accountability plus economic, environmental and social sustainability.
- These principles must be implemented and managed.

#### **Key objectives of JSE SRI**

- Identify companies that are listed that subscribe to triple bottom line reporting and conduct business with good corporate governance
- A sound tool to assess social responsibility
- To contribute to the development and growth of sound business practice in South Africa

#### **Benefits of good corporate governance**

- ✓ Maintains investor confidence
- ✓ Minimizes wastage, corruption and risks.
- ✓ Helps with brand formulation
- ✓ Provides incentives to all stakeholders to achieve objectives
- ✓ Lowers capital acquisition costs
- ✓ Positive impact on share price and SRI rating.
- ✓ Ensure corporate success and economic growth.

## CHAPTER 4 : Creative thinking and Problem Solving

<b><u>Creativity</u></b>	<b><u>Problem solving</u></b>
<p>“Showing imagination and originality as well as routine skill” “Thinking outside the box”</p> <ul style="list-style-type: none"><li>• Skills and techniques can be learnt to enhance creativity</li><li>• Creativity is a crucial skill in modern day business to:<ul style="list-style-type: none"><li>▶ Cope with fast growing technological changes.</li><li>▶ To stay ahead in an increasingly competitive society.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• “Problems are challenges that are not yet conquered”</li><li>• Predictable problems – can be anticipated (growth in a business)</li><li>• Unexpected problems – can’t be anticipated like a natural disaster.</li></ul>

### **Value chain analysis**

Organisation is seen as a series of activities where inputs need to be converted into outputs which supply value to consumers.

- Divide business into different activities
- Describe each process starting with inputs and ending with after sales service.
- Identify critical areas that are needed for a competitive advantage, then decide if these can be handled internally or outsourced.

(See diagram in textbook)

### **Pros and Cons Chart**

- Weighing up your options using detailed information.
- Using Pros and Cons to prioritise your options before making a decision.
- You can allocate a ranking system rating most important to least and then tallying it up, however, you still need to look at it logically and make a final decision.

### **S.W.O.T**

- This Tool is used to identify the strengths, weaknesses which are within the business.
- And the opportunities and threats outside the business.
- Once issues have been identified, the problems can be solved and decisions can be made on how to correct them.

### **Delphi Technique**

- Participants do not have to be physically present in the same room.
- It is useful to use professionals from all over the world.
- A panel or single expert makes a forecast based on their superior knowledge.
- It can be interviews or questionnaires.
- The identity of the experts are normally kept anonymous.

### **Decision Tree**

- A complex decision making tool.
- Graphically compares different options when making decisions.
- Promotes rational decision making and clarify options.
- Each option is quantified so each decision can be calculated and valued to show the probability of success.

### **P<sup>2</sup>E<sup>2</sup>STLE Analysis**

- Identifies and analyses the challenges affecting the macro environment, which the business has no control over.

## CHAPTER 5: Environments

Micro environment is internal, while Market and Macro are external.

### **General factors within the environments:**

#### **Environmental scanning**

Environmental scanning is a 360° process which needs to be done internally and externally.

Environmental scanning has the following benefits:

- Identifies threats before they are imminent
- Identifies possible opportunities and gaps in the market
- Keeps a finger on the pulse of the competitors
- Allows the entrepreneur to make both short and long-term strategies in order to protect their business.



Scanning before starting a business	Continuous environmental scanning
Assists in looking at the following: <ul style="list-style-type: none"> <li>• Viability of the product or service</li> <li>• Strength of the competitors</li> <li>• Size of the potential market</li> <li>• Stability of resources: suppliers, financiers, investors.</li> </ul>	This is done on an on-going basis using different tools: <ul style="list-style-type: none"> <li>• Micro – SWOT and Value Chain</li> <li>• Market – SWOT or Porters</li> <li>• Macro – PESTLE</li> </ul>

### **Sectors of the economy**

**Primary Sector** – Raw materials are extracted from nature. (Farming, mining, fishing etc.)

**Secondary sector** – Raw materials are processed into semi-finished goods that need processing or finished goods ready to be sold on the market.

**Tertiary sector** - Goods and services are sold.

### **Essential steps when implementing a management strategy:**

1. Define the business vision, mission and corporate objectives.
2. Analyse the different environments in detail:
  - Micro environment – SWOT
  - Market environment – SWOT or Porters
  - Macro environment – PESTLE
3. Possible issues that the business should consider when choosing a strategy:
  - Return on investment (ROI) required and other financial issues.
  - Risk factors
  - Potential for business growth and the effect that it would have on the chosen strategies
  - The image the business is trying to create or maintain
  - The effect of decisions on ownership and control of the business
  - Political or social issues
4. Identify the various strategic options available. Depending on the type and size of the business, as well as its aims and objectives, these options would vary significantly.
5. Evaluate and analyse the viability of each strategic option, prioritising them in order of importance.
6. Plan the implementation of the chosen strategy, ensuring that all factors are considered, especially the assumptions on which the chosen strategy is based.
7. Implement the chosen strategy ensuring that it is still in line with the organisational objectives.
8. Monitor and control the strategy with special attention given to managing changes. This is important because any strategy needs to be flexible enough to adapt to changing circumstances.

## **MICRO ENVIRONMENT [Internal Environment]**

1. **Vision** – *The dream of the business, reminds stakeholders of what is seen as important. It must be easily understood, ambitious and bridge the gap between present and future.*
2. **Mission statement** – Sets the business apart from others, deals with the overall existence of the business and its values. It must change with the environment.
3. **Objectives** – *Long & short term [To allow business to stay ahead of competitor. Include ROI, keeping costs low, employee development, social responsibility]*

*Short-term [what the business would like to achieve in the immediate future, couple of months]*

4. **Choice of strategy** – The choice of strategy is based on the competitive advantage of the business that was identified when an analysis of the micro, market and macro environments was undertaken.
5. **Culture of the business** - *values and attitudes shared within the organisation, beliefs cause people to act in a certain way, culture can be changed if not in line with organisation strategy but this is difficult to change employee old habits.*
6. **Resources in the business:** Business resources include assets like money, equipment etc. as well as human resources like labour and knowledge. Human resource managers as well as line managers need to ensure they look after the good staff members. This can be done through incentives, values and motivation. All of these are included in a performance management system.
7. **Business functions/ Functional areas:**

<b>Function</b>	<b>Explanation</b>
General Management Function	In charge of the overall running of the business and ensuring that both long and short term planning is done
Financial function	Controls all the money coming in and going out of the business.
Human Resource Function	Includes all activities and decisions that are intended to improve the effectiveness of the human resources (employees) and of the enterprise as a whole.
Marketing function	Responsible for all the activities that enable the product to get from the producer to the consumer.
Production function	Responsible for the actual making of a product or the actual providing of a service.
Purchasing function	Looks for suppliers outside the business that can provide the necessary raw materials, products and services that all other departments need in order to achieve their own goals.

Administrative function	Responsible for collecting data from the business and the business environment. Data is processed into information that is stored till needed
Public Relations Function	Building the image of the business, both with customers and other stakeholders

8. **Techniques used to identify and analyse challenges in the micro environment:** SWOT analysis and environmental scanning are used. SWOT analysis leads to SWOT matrix. SWOT matrix is used to develop possible strategies to deal with issues raised in SWOT analysis. (details of SWOT matrix in book)
9. **Resource based approach:** An approach used to assess the strategic asset in a business. The idea is that the effective and efficient application of resources helps to determine the competitive advantage of the business. Resources can be tangible (raw materials, computers) or intangible (skills, reputation). Resources are inputs that facilitate the organisations ability to perform its activities. For a resource to be strategically relevant to the company it has to be:
- *Valuable – when they have value they can add to the competitive advantage.*
  - *Rare – They have to offer a unique strategy. It must be something the competition doesn't have.*
  - *Unique – Should not be easily copied by competition.*
  - *Non-substitutable – It should not be able to be replaced by an equivalent product.*
10. **Value Chain Analysis** – used to analyse the input of activities and raw materials in such a way that it adds value to the output and gives the business a competitive advantage.
11. **Balance Score Card** – this is a strategic management tool used to assess the performance of a business. The following perspectives are looked at:
- Financial perspective – profit, liquidity, other financial ratios and important indicators
  - Customer perspective – focuses on issues relating to how customers see the business and what their expectations are from the business.
  - Internal Business process perspective – This describes the internal business processes that are critical to success and include questions relating to:
    - Operations processes: supplier relationships, production of products/services
    - Social processes: complying with laws and statutory regulations, generating goodwill, environmental issues, diversity of employees, community investments.
  - Learning and Growth Perspective: Describes intangible assets such as information and human capital in an organisation.

## **Market Environment [external environment]**

### **Elements of the market environment:**

*THE BUSINESS CAN'T CONTROL THESE ELEMENTS, HOWEVER, IT CAN INFLUENCE THEM.*

This includes all elements the business interacts with on a regular basis.

Customers, suppliers, Competitors, NGO's, Strategic alliances, Intermediaries, Industry regulators, Trade Unions & Government Departments.

### **PORTERS SIX FORCES MODEL**

#### The level of rivalry in the market

- This refers to competition in the market. How Many companies are competing for the same target market?
- You can do a competitor profile to find the most out about your competitors – their finances, products available, quality etc.

#### The availability of substitute products

- A substitute is a different product that satisfies the same need. Eg: Chips and peanuts = snack food.
- What are the costs of substitutes?
- **NB** to find out as much as possible about the substitute products.

#### Threat of new entrants

- It is not current competition only creating a challenge, new business that might open which takes your customers is also an issue.
- If there is lots of profit in a market, new business will open or if there are not enough suppliers to meet demands.
- This threat is diminished if there is brand loyalty, government policies or large sums of capital required, new entrants are less likely.

#### Power of suppliers

- Relationship between supplier and business, in the interest of both parties to have strong relationship. Business can suffer financially or bad public relations if this is not done.
- Business needs right quality, quantity, time, place etc. from supplier, if not it can suffer loss of business, run out of stock and customers goodwill.

#### Power of buyers (including intermediaries)

- Includes more than final consumer of product, can be wholesaler, retailer etc.
- Must know target market well.
- Market segmentation – how many potential buyers in a market.
- Buyers will consider alternatives if they are not satisfied.

#### Complementors

- These are products that offer more value to the consumer together than apart
- E.g. hotdogs and bread rolls. Shampoo and Conditioner.

## MACRO ENVIRONMENT [External]



### Political

- stability of government
- potential changes to legislation
- global influence



### Economic

- economic growth
- employment rates
- monetary policy
- consumer confidence



### Social

- income distribution
- demographic influence
- lifestyle factors



### Technology

- international influences
- changes in information technology
- take up rates



### Legal

- taxation policies
- employment laws
- industry regulations
- health and safety



### Environment

- regulations and restrictions
- attitudes of customers

<p><b>Physical Environment</b></p>	<p><u>Natural Resources:</u></p> <ul style="list-style-type: none"> <li>● Businesses need natural resources to produce goods</li> <li>● People need natural resources to survive</li> <li>● Some natural resources really expensive and scarce: oil, coal</li> <li>● <b>Solutions</b></li> <li>● Recycling is good way of saving energy and conserving environment (converting waste products into useful goods)</li> </ul> <p><u>Infrastructure</u></p> <ul style="list-style-type: none"> <li>● Refers to the availability of roads, railways, water, electricity, communication links and support services.</li> <li>● If a business is located far from these services, consumers may have trouble reaching the business.</li> </ul> <p><u>Pollution</u></p> <ul style="list-style-type: none"> <li>● It is inevitable that some pollution will take place during the production process.</li> <li>● Businesses should try to minimise pollution</li> </ul>
<p><b>Ethical Environment</b></p>	<ul style="list-style-type: none"> <li>● This refers to morals, values and good corporate governance</li> <li>● Why do you think its important for businesses to take this into consideration?</li> </ul>



## Challenges in the Various Environments

<b>MICRO ENVIRONMENT</b>	<b>MARKET ENVIRONMENT</b>	<b>MACRO ENVIRONMENT</b>
<p>Difficult employees:</p> <ul style="list-style-type: none"> <li>- may lack skills or be unproductive</li> <li>- not able to work in a team</li> <li>- this affects morale and productivity</li> </ul> <p>Lack of vision and mission</p> <ul style="list-style-type: none"> <li>- causes a business to have no direction</li> <li>- vision and mission must be communicated to staff regularly.</li> </ul> <p>Lack of adequate management skills</p> <ul style="list-style-type: none"> <li>- cause conflict in a business</li> <li>- affects productivity &amp; profitability as well as morale</li> </ul> <p>Unions</p> <ul style="list-style-type: none"> <li>- Can have agendas which are unknown to the business</li> <li>- they can be very powerful</li> </ul> <p>Strikes and Go Slows</p> <ul style="list-style-type: none"> <li>- are a threat to a business because are effective in forcing them to negotiate</li> </ul>	<p>Competition</p> <ul style="list-style-type: none"> <li>- Threat if there are too many businesses offering products or services which are not differentiated enough</li> </ul> <p>Shortages of Supply</p> <ul style="list-style-type: none"> <li>- Can be devastating for a business shall should never be empty or service is unavailable due to shortage of supply customers will go elsewhere</li> </ul> <p>Changes in Consumer Behaviour</p> <ul style="list-style-type: none"> <li>- Occurs frequently as people's needs wants values tastes and attitudes change due to Global influences caused by access to technology</li> </ul> <p>Demographics</p> <ul style="list-style-type: none"> <li>- The target market must be studied and understood in order to make the correct decisions about what products and services to offer</li> </ul> <p>Socio - Cultural Factors</p> <ul style="list-style-type: none"> <li>- Must be taken into account when producing and marketing products</li> </ul>	<p>Changes in income levels</p> <ul style="list-style-type: none"> <li>- Occurs due to the global economy and government financial policies.</li> </ul> <p>Political changes</p> <ul style="list-style-type: none"> <li>- Lead to economic instability which has negative effects on people's confidence and causes them to be more cautious about spending</li> </ul> <p>Legal legislation</p> <ul style="list-style-type: none"> <li>- Business' need to keep track of changes and comply with the new laws</li> </ul> <p>Globalisation</p> <ul style="list-style-type: none"> <li>- Means more competition of businesses were already under pressure to compete locally</li> </ul> <p>Socio - Economic issues</p> <ul style="list-style-type: none"> <li>- Poverty unemployment inadequate education skills shortages crime and HIV and AIDS are all major challenges to businesses</li> </ul>

## Strategies as tools

### Advantages of having a strategy:

- It gives direction to the business through the precise definition of aims and objectives and therefore helps management to understand long-term consequences of current decisions
- It ensures consistency in decision-making and the manner in which problems are addressed
- It differentiates management roles and areas of responsibilities
- It puts the business and its role in the broader economy, involving a variety of stakeholders into perspective.
- It anticipates changes in the internal and external environment and links the environments to ensure resource allocation is aligned with changes in these environments,

### Types of Business Strategies

#### 1. Corporate Strategies

<b>a. Growth strategies</b>	<p>Refers to a plan of action intended to increase the market share (target market) of the business.</p> <p>This can happen through:</p> <ol style="list-style-type: none"> <li>1. Internal growth: <ul style="list-style-type: none"> <li>• Emphasising existing products/ services in existing markets and channels.</li> <li>• Increased customer retention</li> <li>• New product development</li> <li>• New market and channel development</li> </ul> </li> <li>2. External growth <ul style="list-style-type: none"> <li>• Adjusting the businesses core objectives and surroundings</li> <li>• Existing products/services, markets and distribution channels</li> </ul> </li> </ol>
<b>b. Decline Strategy</b>	<p>This strategy occurs after a business has experienced difficult times or the management have decided to decline in one area in order to grow or take advantage of a more viable opportunity in a different area.</p> <ul style="list-style-type: none"> <li>• Diversture- selling assets or parts of the business</li> <li>• Harvest – limiting a businesses exposure in a market by withdrawing large amounts of cash or assets from the industry in which the demand is declining.</li> </ul>
<b>c. Corporate Combination strategies</b>	<ol style="list-style-type: none"> <li>1. Joint Venture <ul style="list-style-type: none"> <li>- Used when businesses or stakeholders come together to achieve the business goals and gain a competitive advantage</li> <li>- Each business maintains its own identity</li> <li>- E.g. Engine and Woolworths</li> </ul> </li> </ol>

	<p>2. Merger</p> <ul style="list-style-type: none"> <li>- Used when two or more business combine by mutual consent to form a completely new entity.</li> <li>- Usually done to combine resources (e.g. finances, skills or know how)</li> </ul> <p>3. Takeover</p> <ul style="list-style-type: none"> <li>- Occurs when one company buys sufficient shares in another company, in order to take control of the management or decision making of that entity.</li> </ul>
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**2. Generic Strategies**

<b>Low Cost Strategy</b>	<p>Aimed at gaining a competitive advantage by having the lowest possible cost. This can be achieved in 2 ways:</p> <ul style="list-style-type: none"> <li>- Increasing profits by reducing costs, while charging industry related prices</li> <li>- Increasing the market share of the business by offering a lower prices to the customer</li> </ul>
<b>Differentiation strategy</b>	<p>Involves making your product/service different and more attractive than those of your competitors.</p>
<b>Focus Strategy</b>	<p>This entails focusing on a particular segment of the market (niche market).</p>

**3. Intensive Strategies**

<b>Market Penetration</b>	<ul style="list-style-type: none"> <li>• Used when businesses find themselves in a situation where there is no new market to explore or a new product to develop or promote</li> <li>• These businesses are then forced to grow through market penetration which is aimed at giving the business a greater percentage of the market share.</li> </ul>
<b>Product Development</b>	<ul style="list-style-type: none"> <li>• Attempts to develop new products for an existing market or a market you are already familiar with, instead of pioneering a new market with existing products.</li> </ul>
<b>Market Development</b>	<ul style="list-style-type: none"> <li>• Attempts to develop a new market for an existing product or service.</li> </ul>
<b>Diversification</b>	<ul style="list-style-type: none"> <li>• Involves entering a new market with a new product or expanding their present market or product offering</li> <li>• Takes place in order to improve the growth of the business or increase market share and become more competitive and profitable.,</li> <li>• May include <ul style="list-style-type: none"> <li>- Adding new products to new markets</li> <li>- Adding a new product to an existing market</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>- Adding complementary/ related products</li> <li>- Adding unrelated products to an existing market</li> </ul> <p>(see examples in textbook)</p>
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**4. Other Strategies:**

<b>Revised Business Mission</b>	This involves the management of a business going back to relook at the business mission, and looking at whether or not the current mission will lead to a competitive advantage.
<b>Establish or revise objectives</b>	This involves management analysis the set objectives of a business, determining if they are leading to the businesses vision and adjusting these objectives as needed.
<b>Allocate resources effectively/differently</b>	Finding the best possible way to utilise the resources in a business effectively.

## **CHAPTER 6: Entrepreneurship, Management and Leadership**

### **Intrapreneurs:**

Same qualities as entrepreneurs, with 2 distinct differences:

- More cautious and less likely to take risks that may involve personal assets
- Circumstances often force them into a stable job unable to go on their own.

Therefore: Intrapreneurs are employees who work within a business, but use their unique talents of innovation and leadership to change and improve their department or take the business to new heights.

### **Entrepreneurs:**

See a gap in the market and start a business providing the products/services to fill this gap.

### **Entrepreneurial qualities:**

- Passionate visionaries – ability to do what no one else would have thought of and plan for the future
- Creative thinkers – allows them to create and maintain a competitive advantage
- Risk takers
- Good leaders- need to be able to persuade others to buy into their dream and help realise it.
- Independent spirits
- Perseverance and commitment
- Opportunists – need to be able to see an opening and take it.

### **Entrepreneurial skills:**

- Need to have the necessary knowledge and expertise to run a business successfully
- Planning, Leading, Organising & Controlling
- Communication skills

### **Personal attitudes of Entrepreneurs:**

- Results driven
- Ability to formulate a vision whilst being flexible
- Ability to work in a team
- Influencing followers
- Honesty and integrity
- Emotional intelligence (EQ)
- Self-motivation

## **MANAGEMENT AND LEADERSHIP**

### **Difference between a manager and a leader**

- A manager is appointed to a position VS a leader natural take on the role
- A manager has power due his position VS a leader has respect and influence over others due to his qualities

## **Different Management and Leadership Styles**

### AUTOCRATIC

- \*One person making all the decisions (second wave management)
- \*Could be used for a turn around strategy or to restore discipline
- \*On a long term basis it may demotivate workers and be self-destructive to the business

### DEMOCRATIC/PARTICIPATIVE

- \*Cannot go from autocratic to democratic in one step as this would result in chaos
- \*allows for more involvement by workers in the decision making process which in return will approve "buy in" from workers
- \*ranges from allowing feedback to giving suggestions
- \*fully democratic = leaders and followers have equal power in decisions
- \*fully participative = all have full control to make decisions

### LAISSEZ FAIRE

- \*No interference
- \*Inform workers WHAT must be achieved but don't get involved in tell workers HOW it should be achieved

### TRANSACTIONAL

- \*based on an exchange between leaders and workers
- \*Give and take transaction
- \*Offers something of value in return for services and following

### TRANSFORMATIONAL

- \*A shift from what people can get in return to what people can achieve together
- \*Motivate through transformation and understanding and creative social transformation
- \*This type of leader helps workers satisfy followers higher needs while at the same time reaching the goals of the business
- \*Motivate workers to do more than they originally intended to do and often achieve more than they thought possible
- \*Extremely creative and flexible leader
- \*Empowers workers

### SITUATIONAL APPROACH

- \*The leaders behaviour varies from situation to situation making use of different leadership styles based purely on the situation at hand. May be influenced by:
  - The organisational culture
  - Abilities of the leader
  - Relationship between the leader and followers

### Management Tasks:

<b>planning</b>	(4 w 1 h)* plan * communicated clearly * preferably in writing
<b>Organising</b>	All resources available to execute the plan
<b>Leading</b>	Encourage team members to implement plan
<b>Control</b>	Setting clear goals, constantly measuring the actual performance to desired performance and introducing corrective measures
<b>Motivation</b>	Diff people motivated in different ways *money * promotion * time off * rewards
<b>Communication</b>	Conveying ideas, instructions and queries as well as feedback. * improves relationship with management and workers * can be horizontal, vertical
<b>Co ordination</b>	Ensure all sections of the business work together in order to reach the set goal * management of all the factors of production
<b>Delegation</b>	Manager cannot do everything alone *tasks delegated to other staff * can delegate authority to do task but responsibility remains his,hers.* effective tool for empowering staff by trusting them with task and giving them the opportunity to show their skills
<b>Discipline</b>	Essential in maintaining order and optimum working conditions * makes sure workers uphold code of conduct and rules * enforced informally and formally
<b>Decision making</b>	To complete tasks decisions must be made. *Must be confident as well as have skill and knowledge to be able to make good decisions Complete

### Managerial Competencies:

<b>Strategic Action Competency</b>	Understanding the strategic direction of the business (mission and vision) and ensuring that all goals and objectives are aligned to the overall performance of the business.
<b>Global Awareness Competency</b>	Ability to obtain the necessary resources from other countries and having a sensitive approach and necessary knowledge to deal with cultural differences.
<b>Teamwork Competency</b>	Ensuring work can be done effectively in teams by establishing training, performance goals and other systems that enhance effective teamwork.
<b>Organisational Awareness Competency</b>	Understanding different aspects of the business, such as the operations, structure, as well as the organisational structure.
<b>Analysis as a Competency</b>	Ability to break information down into smaller parts, by sorting and looking for cause and effect relationships, or finding themes or patterns/trends in the data.
<b>Empowerment and Talent Development Competency</b>	Measures put into place to attract, extend, motivate and retain productive and engaged employees.
<b>Initiative as a Competency</b>	Showing initiative by evaluating, selecting and acting on strategies to solve problems and meet objectives, before being asked to do so.
<b>Judgement as a Competency</b>	Making decisions based on facts that are relevant.
<b>Customer service Orientation</b>	Ability to think of the customer first. The customers' needs and feedback are taken seriously.
<b>Negotiation</b>	An interpersonal decision making process in which two or more people agree on new terms.

### Motivational Factors:

Monetary motivation: monetary reward profit share bonus salary hikes, commission

Non-Monetary motivation: flexible working hours, sabbaticals, awards, recognition differs according to \*income group \* age \*Career stage

Problems with monetary motivation:

- encourages compliance of task rather than risk taking.
- Employees are discouraged from being creative and become performance driven.
- Team members tend to compete against each other.

Motivational factors must be tailored to the needs of the employee; Maslow's hierarchy of needs could be used to decide the most appropriate for specific employees

<u>Environmental scanning</u>	
<u>Benefits</u>	
*Identifies threats before they are imminent	
*Identifies possible gaps in market to take advantage of	
_ * Finger on the pulse of competitor	
*Allows short and long term decision making	
360° processes	
<u>Before starting</u> *viability of product *strength of competitor * size of potential market	<u>Continuous environment scanning</u> *ongoing process use tools *SWOT *P <sup>2</sup> E <sup>2</sup> STLE * PORTERS





# CHAPTER 7: Marketing and Branding

## What is marketing?

- Responsible for identifying, anticipating and satisfying customer needs
- Develop the necessary tools to optimise the businesses market position
- Right product/services at right time, place at the right price

## 7P's of Marketing

### 1. Product

- \*Delivering a product that the consumer is willing and able to buy by developing according to customers' needs
- \*product must be created that adds value to consumers lives
- \*products do not need to be tangible
- \*put systems in place to consistently evaluate and monitor consumer behaviour
- \*keep up to date with changes in the markets so you can adapt and provide new products
- \*packaging is important to the consumer, most recognise the product by the packaging



### 2. Price

- \*Product are only worth what customers are willing to pay for them
- \*The price charged could be your competitive advantage, not the cheapest but the best value
- \*Need to provide the business with a profit
- \*Helps position business in the market the higher the price the higher the quality the consumer expects
- \*Price sensitivity needs to be considered. New customers need to see value before purchasing
- \*The price reflects what the customer is expecting of your business in all areas- service; packaging; promotions
- \*Can price at (competitive **pricing**), above( **prestige pricing** )or below market value (discounted pricing)
- \*A business could use e.g. **psychological pricing** Odd pricing R1999 instead of R2000 prestige pricing upmarket luxury goods \*superficial discounting or price discrimination

### 3. place

- \*the place where the customer will buy the product
- \*available at right place time and be the correct quality
- \*decide whether the product will be made available intensively, selectively or exclusively
- \*franchising has become a popular form of distribution
- \*also includes the way a product is displayed



### 4. promotion

- \*business communicate what it is selling
- \*branding, advertising, personal sales, public relations, exhibitions, specials
- \*Message must be consistent and appealing to give the customer reason to choose your product over a competitor

### 5. people

- \*need to have the correct level of training for staff as your product is judged by all are connected to it
- \*the employee is the face of the business
- \*most people do not separate the product from the person that provide the service
- \*Aftersales service is vital to add value



### 6. process

- \*process or f the service is crucial to the customer
- \*correct systems that work
- \* design system around what is best experience for the customer

### 7. physical evidence

- \*buying intangible product or good over the internet you need to provide evidence of quality
- \*physical evince helps demonstrate and confirm
- \*The location and physical appearance of business premises also indicate quality to the customer

## Marketing plan vs Marketing strategy

Marketing Plan	Marketing Strategy
Defines the objectives, helps determine targets and performance measures are then developed to help understand budgets.	This is a specific plan of action, which is flexible to allow for consistent review and updates. It needs to be in line with the business' overall corporate strategy.

## CONSUMER PROTECTION ACT (CPA)

\*based on fairness and equality for all

- ✓ CPA looks at the following
- ✓ Promotion of fair accessible marketplace for consumers
- ✓ Norms and standards to protect consumer
- ✓ Prohibits unfair marketing
- ✓ Promotes responsible consumerism
- ✓ Lays down laws for agreements. The act applies to all transaction in South Africa

### Right of the consumer under the CPA

- right to equality- all consumers need to be treated the same, consumers may not be unfairly discriminated against
- right to privacy – Consumers have the right to have all unwanted correspondence restricted
- right to choose – Consumers are not obligated to purchasing additional products and services
- right to disclosure of information -Consumers have the right to receive all information in plain and understandable language
- right to fair and responsible marketing – Consumers have the right to be protected against bait and negative marketing, misleading or deceptive representation.
- right to fair and honest dealings – protection against false, misleading or deceptive representation
- right to fair, just and reasonable terms and conditions
- right to fair value, good quality and safety
- right to accountability from suppliers

### **Branding**

A unique character a name, a term, logo or design or combination of off used to identify good or service from it competitors

#### Advantages of a strong brand

- Inspires customer loyalty
- Usually sell for higher price
- Retailers want to stock item as it attracts customers
- Helps with businesses image and appearance
- Add credibility and increases business confidence
- Some retailer use their own brand on product these brands tend to be cheaper than the normal brands some market goods under their own names as a superior product but they do not manufacture them.

A strong brand has the following brand elements:

- Memorable
- Meaningful
- Likable
- Transferable
- Adaptable
- Protectable

**Factors that help build a strong brand**

Quality: vital part of the brand it's what the consumers expect from the brand

Positioning:

is achieved through:

- ✓ Packaging
- ✓ Brand name
- ✓ Image
- ✓ service standards
- ✓ product guarantees
- ✓ delivery

Repositioning: brand changes its market position to reflect customer choice, brand could have become old, no longer appeals to customer.

Communication: all element of marketing mix clearly thought through

Long term prospectus: developing and investing and creating brand loyalty Internal marketing: developing brand internally as well as externally, getting employees to live the brand and be brand ambassadors

Credibility: business promise to deliver on its promise at the right place .time, right quality and price

**Brand extension and brand stretching**

Strong brand deliver higher sales and have the potential to be used on other products

Brand extension the use of a successful brand to launch a new product may enter new product category

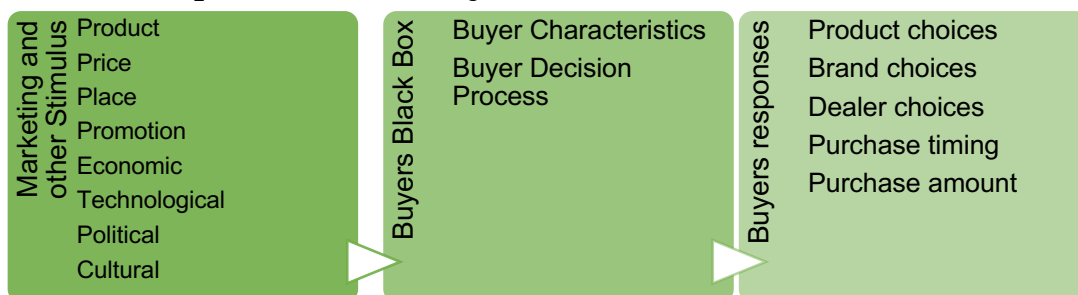
Brand stretching use of a established brand in an unrelated market

-advantage of brand extension and stretching  
 distributors perceive it as less risk  
 products likely to gain customer loyalty easily and quickly  
 attract customer and they more willing to sample or trial the product  
 promotional cost are lower

market mapping identify the appropriate segment and then the challenge is to position the product so that it meets the needs of the consumer  
 high price vs low price / high quality vs low quality / luxury vs necessity / young vs old / male vs female

**\*Factors that influence a buyers decision: See page 125 in textbook**

**Stimulus Response Model of Buyer's Behaviour**



## Service Marketing – People, Process and Physical Evidence

<b>People</b>	<ul style="list-style-type: none"> <li>• the businesses brand and reputation rests in the hands of people that the customer comes into contact with (person actually providing the service).</li> <li>• Therefore, the business needs to ensure the correct level of training and motivation are given to employees.</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>• HOW the service is provided</li> <li>• Includes issues such as waiting times, information given and helpfulness of staff</li> <li>• Correct systems need to be put into place</li> <li>• When designing systems do not only concentrate on what makes the business more effective in the running, but how the consumer will experience that system too.</li> </ul>
<b>Physical Evidence</b>	<ul style="list-style-type: none"> <li>• Includes maintaining an environment that is clean, tidy, friendly and well decorated</li> <li>• Helps demonstrate and confirm the assumptions of the customer</li> <li>• Location and physical appearance of the business premises gives the customer a sense of quality</li> </ul>

## Ethical Versus Unethical Marketing

### Principles of ethical marketing:

- All marketing communication should be based on honesty and truth
- Consumers should be treated fairly based on the nature of the product
- Marketers should comply with regulations and standard as established by governments and industries
- Codes of practice for industry and in South Africa should be adhered to
- Comply with international standards and best practice
- Privacy of the consumer should not be compromised
- Advertising should be distinguished from news or entertainment

### Types of unethical marketing:

- Exaggeration – false claims about the products quality, features, performance etc
- False brand comparison
- Surrogate advertising – finding ways of reminding consumers of a certain product without directly referring to the product, due to the law preventing the marketing of this specific product.,
- Using subject rather than objective claims
- Children in adverts
- Materialism – creating false needs
- Deceptive names which create confusion or false expectations
- Selling second hand goods as new
- Unacceptable language or discrimination

### Franchise Marketing:

- Most franchisors have a comprehensive marketing plan in place for the OVERALL franchise.
- Marketing is usually consistent throughout all stores. However, some contracts make provision for stores to do local promotions

### Advantages and Disadvantages of Franchising

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Franchisee</b>	<ul style="list-style-type: none"><li>• Franchisee has access to advice from the franchiser</li><li>• The franchise agreement offers the franchisee legal protection</li><li>• It is easier to raise borrowed capital from banks and financial institutions</li><li>• Franchisees often work together to solve problems</li></ul>	<ul style="list-style-type: none"><li>• The cost to establish the franchise is usually very high</li><li>• Monthly royalties still need to be paid</li><li>• Entrepreneur is limited – needs to stick to the prescriptions of the franchisor.</li><li>• Some franchisors may not continue to give the support initially promised</li><li>• The entrepreneur who wants a challenge may become bored with the franchise.</li></ul>
<b>Franchisor</b>	<ul style="list-style-type: none"><li>• The franchiser can expand his/her business quickly without a large capital outlay</li><li>• Franchisees will be more committed to making a success of the business than they would if they were just managers running a branch</li><li>• There are no staff problems for the franchisor because each entrepreneur running his franchise is responsible for his own recruitment.</li></ul>	<ul style="list-style-type: none"><li>• The franchiser can find it very difficult to keep training and giving assistance to all franchisees</li><li>• The franchisor does not have direct control over franchisees, yet the success of the franchiser.</li><li>• is dependant on the success of the franchisees</li><li>• Administrative duties involved in collecting royalties and controlling the brand.</li></ul>

## CHAPTER 8: Human Resources / Human Capital Management

### **Definition:**

HR aims to improve the effectiveness of the employees and the enterprise.

### **Purpose:**

Bridge the gap between management goals and the employee's needs. Maximise their potential to achieve business goals.

### **Function:**

- Interpret employee's & employer's needs.
- Coordinate management and staff requirements.
- Implementing various activities [recruitment, selection, etc.]

## HUMAN RESOURCES ACTIVITIES

### 1. **MANPOWER PLANNING**

#### **Purpose:**

Determine the following:

- ✓ How many employees the business needs.
- ✓ What skills employees must have?
- ✓ When will these employees be needed?

#### **Workload analysis:**

How many people are required for the amount of work that must be done?

#### **Job analysis:**

Obtain all relevant information about the job. Identify the job, describe tasks of the job accurately, demands placed on the worker.

#### **Job description:**

A summary of information collected through job analysis. Show the jobs duties, responsibilities, level of authority of workers etc. Everything about the job!

#### **Job specification:**

Minimum ability a worker must possess. Things like experience, education, physical requirements. Everything about the worker!

#### **Manning table:**

Shows how many people required at which level of skill and the position they are needed for E.g. in textbook. .

#### **Determining employee requirements:**

Manning table specifies total amount needed, therefore, Recruiting plan takes away what you already have and equals what you still need

### 2. **RECRUITING (FINDING EMPLOYEES)**

#### **Sources of new employees:**

- ✓ Within the business – people are appointed to new positions by means of transfers or promotions.
- ✓ Outside the business – Appointing people from other businesses, schools & varsities.

**Internal recruiting:**

- ✓ Job posting – employer notifies all current employees about the position and invites them to apply.
- ✓ The business searches its files of the employees and then invites certain employees to apply for the position.
- ✓ Recommendations from current employees about people outside the business – combination of internal and external recruiting.

*If the business cannot find the right person in the business they then look outside. Employing internally creates a positive morale among the employees.*

**External recruiting:**

- ✓ Advertising in newspapers, trade journals, radio, window displays & notice boards.
- ✓ Educational institutions like schools, varsities, etc.
- ✓ Private & public employment agencies.
- ✓ 'Walk-ins'.
- ✓ Internet recruiting.

*Depending on the position needing to be filled will depend on the type of external recruitment used.*

**3. SELECTION – (Screening and choosing employees)**

*Recruiting is positive while selection is a negative process.*

- ✓ Selection aims at excluding unsuitable candidates – skill & experience don't match job specification.
- ✓ Good selection results in lower staff turnover, lower production costs, less training & higher productivity.

**STANDARD SELECTION PROCEDURES:**

**1-Receipt Of applicant's forms & C.V**

- ✗ HR manager must be available to answer any questions regarding job.
- ✗ After closing date, list drawn up of all applicants.
- ✗ Submitted docs should be checked against required docs.

**2-Initial screening**

- ✗ Identify applicants who don't meet requirements.
- ✗ Unsuccessful applicants are notified in some way.
- ✗ Successful applicants – next step!

**3-CV/Job application evaluation (draw up a short list)**

- ✗ Panel goes through successful CV's and evaluates them according to minimum requirements of the job.
- ✗ Measured against predetermined set of criteria.
- ✗ Short list is drawn up according to these scores.

**4-Check references and backgrounds**

- ✗ Are potentially new employees.
- ✗ HR needs to confirm their references.
- ✗ Ask references questions about applicant's abilities.

**5-Interview candidates on short list.**

- ✗ Interview panel one person or group of people.
- ✗ Aim is to get info from applicant and give more info to applicant about the business.

**6-Tests & examinations**

- ✗ Different tests can be done by applicant:  
Ability/trade test; Psychometric tests; work sample tests.

**7-Medical examination**

- ✗ May not be given unless it is required for the job.
- ✗ HIV/Aids testing laws are strict.

- ✗ Employee can be given health questionnaire and if there are concerns then a medical examination can be requested.

#### 8-Letter of appointment

- ✗ The decision of who to appoint is now made.
- ✗ Applicants are listed in order of preference.
- ✗ 1<sup>st</sup> on the list is given an offer in writing, if they decline 2<sup>nd</sup> is given the offer etc.
- ✗ Letter of appointment needs to be signed if it is legally binding.

#### **4. EMPLOYMENT CONTRACTS**

- Labour relations Act now requires employee and employer to draw up a contract and both sign.
- Must contain at least the Basic Condition of the employment act.
- Contract should include things like: Employer details, employee details, employment details, salary issues, leave details, termination of service, other issues deemed necessary.

#### **5. PLACEMENT OF STAFF**

- This takes place when a large number of people are appointed at the same time..
- This requires that the abilities of the individuals are compared with the requirements of the vacant positions and each individual is then placed in the position where the best match is achieved.

#### **6. REMUNERATION OF EMPLOYEES**

Salaries and wages are addressed in the Basic conditions of employment act.

- **JOB EVALUATION:** The importance of a job is investigated to create a set of levels from least important to most important. A job is then paid according to its JOB GRADE.
- **PERFORMANCE EVALUATION:** An individual's performance is evaluated in a particular job and it determines the annual increase. Therefore ones salary range is adjusted according to your performance.

##### METHODS OF JOB EVALUATION IN S.A:

Patterson – levels according to decision making responsibility.

Hay job evaluation method – levels according to knowledge required, accountability & problem solving.

- **SALARIES:** Payments made to permanent employees, fixed amount paid monthly.
- **COMMISSION:** A percentage of the sales the person can make over and above their salary.
- **PERFORMANCE BONUS:** Managers commonly get performance bonuses over and above their salaries as an incentive.
- **PROFIT SHARE:** Also seen as a type of incentive where part of the annual net profit is shared among the directors/managers.
- **WAGES:** Employees providing less skill, payment is generally on a weekly basis. Can be paid for time worked or at a fixed rate.
- **OVERTIME:** Payment for working after normal working hours or public holidays etc. All payments must comply with the Basic conditions of employment Act.



- **BENEFITS:** Different companies offer different benefits to their employees. Some are compulsory deductions like tax, UIF and pension fund. The balance is not. Other benefits include: Housing allowance, car allowance, study allowance, meals, discounts, loans, uniform allowance, 13<sup>th</sup> cheque, entertainment allowance.
- **TAX DEDUCTIONS:** If you earn less than R80 000 you pay SITE (Standard income tax on employees). Over R80 000 you pay PAYE (Pay as you earn) – this is progressive, the more you earn, the more you pay.
- **BASIC PLUS BENEFITS:** Your basic salary is paid and then any optional benefit the company may offer is over and above your salary. If you don't make use of it, it falls away.
- **COST TO COMPANY:** The business gives you one amount and in that amount is the additional amount for different benefits, if you use the benefits or not the money remains yours.

## **7. INDUCTION OF STAFF - ORIENTATION**

- ❖ Purpose is to inform the employee of how the business runs, the do's and the don'ts etc. AND to help the employee fit in to existing teams and structures in the work place.
- ❖ New employees experience high levels of anxiety which needs to be calmed by the induction programme.
- ❖ Induction programme topics include: Company policies, expectations, staff introductions and responsibilities, mentors are allocated sometimes etc.

## **8. TRAINING OF STAFF AND SKILLS DEVELOPMENT**

- ✓ TRAINING: A job specific process intended to raise the employee's performance and efficiency. Changing or improving on knowledge, skill, behaviour, and attitude.
- ✓ SKILLS DEVELOPMENT ACT: Workplace must be a place of learning; businesses must invest more in good quality training, improve employment opportunities for the disadvantaged, and encourage employee involvement in programmes.

### **TRAINING PROCESS**

- 1 – identify problems needing training.
- 2 – what skills are needed for the job? (job analysis shows this)
- 3 – job performance must be analysed.
- 4 – training needs are determined.
- 5 – training objective need to be set up. (smarter goals)
- 6 – training programme is now developed.
- 7 – train staff!

**On-the-job:** training in real work situation.

**Off-the-job:** in the form of a course.

**Apprenticeship training:** work for 6 months, attend lectures for 6 months.

**Workshops:** promote interaction, update skills.

**Job rotation:** multi-skilling expands employee experience.

**Self study:** employee goes through material at own pace.

**Mentorship/buddy system:** working together with senior employee.

**Learnership:** person works for the business while studying.

- 8 – evaluate training results.

## **9. EVALUATION, RETENTION AND SUCCESSION PLANNING – (PERFORMANCE APPRAISAL)**

- It is important to monitor the efficiency of the staff and their performance.
- This is to check whether training goals have been met and the level of skill of the workers.
- Appraisals are generally done by management only; however, peer evaluation is also common.
- The function of performance appraisal is to give employee feedback on their past performance, look at strengths and weaknesses and discuss any employment issues that have arisen.

## **10. RETENTION**

- ✓ High staff turnover is not good for the company image, staff morale or productivity levels.
- ✓ It is costly and time consuming to recruit and train new employees.
- ✓ Production may slow and plans may need to be altered if employees leave.
- ✓ Try to retain your staff but understand it is normal for staff to leave for certain reasons like spouse transfers, health reasons etc.

## **11. SUCCESSION PLANNING**

- This is a process whereby key personnel are recruited, developed and trained to fill key positions in the enterprise.
- Personnel are prepared for future advancement and promotion

Succession planning steps:

- Identify critical positions
- Determine the skills, knowledge and competencies needed by the people in these positions
- Identify succession management strategies
- Implement the chosen success plan
- Evaluate the effectiveness of the plan

# CHAPTER 9: INDUSTRIAL RELATIONS AND LEGISLATION

## The constitution

This applies to all citizens of South Africa and all law must uphold and not infringe on any right laid out in the constitution.

Three areas of the constitution that affect business are:

- Human rights
- Inclusivity
- Environmental issues



**Limitation clause:** Seems contradictory to granting rights but also necessary to limit if rights conflict.

**Inclusivity:** the right to include everyone in giving equal rights and no one may be excluded for any reason.

## Labour relations act 66 of 1995

- Provides the basic legal framework for South African labour relations
- Contains the basic rules and mechanisms that can be used to control communication, bargain or negotiate relationships between employers and employees
- Applies to every employer and employee, except for members of the following:
  - × National Defence force
  - × National Intelligence Agency
  - × South African Secret Service

## Purpose of the LRA

- ✓ To enforce the fundamental rights of the Constitution
- ✓ To enforce South Africa's international obligations as a member of the International Labour Organisation
- ✓ To provide a framework for collective bargaining between trade unions and employers
- ✓ To promote effective resolution of labour disputes through employee participation in decision-making in the workplace.

## Trade Unions and Employer Organisations

**Trade unions:** any number of employees in a particular industry associated together for the purpose of regulating relations in that industry. Main aim is to engage in collective bargaining with employers on behalf of the members of the union.

**Employer organisation:** serves the same purpose as a trade union but enable employers to negotiate with trade unions of their specific industry

South African constitution guarantees freedom of association that allows employees the right to belong to a trade union and employers the right to join an employer's organisation.

## Functions of a Trade Union

- ✓ Protect the rights of workers
- ✓ Improve conditions of employments e.g. Salary benefits, working hours & Conditions
- ✓ Represent members in negotiations with employers
- ✓ Represent employees in disciplinary issues
- ✓ Advise employees on labour relations issues
- ✓ Stive to achieve industrial peace while influencing policies and decisions regarding labour issues

### **Requirements to register a Trade Union:**

- A proper constitution
- The constitution must be consistent with the LRA
- The union should not be formed to evade any law, nor should it be affiliated to any political party.

### **Collective Bargaining**

Collective bargaining is the foundations of Industrial Relations and includes two broad issues:

- × Contract negotiations between employers and Trade Unions
- × The handling of grievances

### **Forms of Industrial Action**

- ✓ Strike is a temporary refusal to work in order to put pressure on the employer to agree to the demands of the worker
- ✓ Go slow is when workers continue to work but slow down to reduce the productivity this often comes before a strike
- ✓ Work to rule is when the worker only does what is stated in their contract and nothing extra.
- ✓ Picketing is when unhappy workers demonstrate outside the premises of the business to show the public and customer their dissatisfaction, work is not disrupted.
- ✓ A lock out is when the EMPLOYER refuses to let the employees on the business premises to continue to work unless they accept certain conditions.

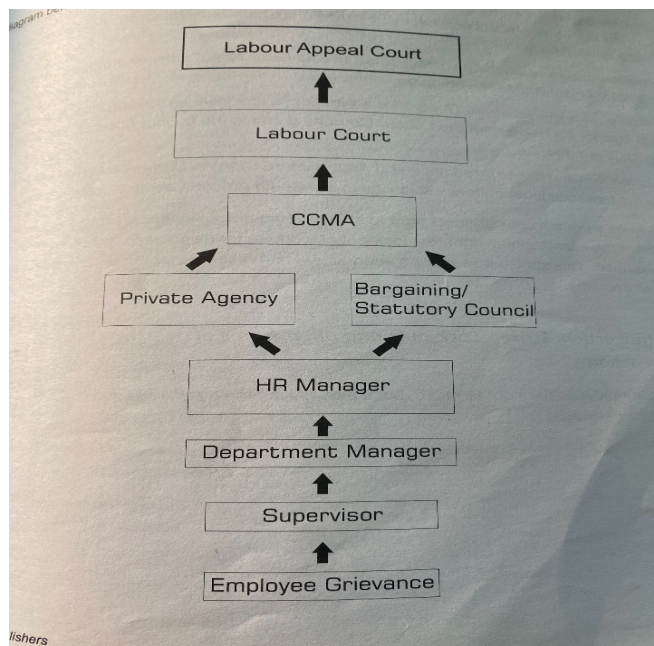
### **Three collective bargaining councils**

- Bargaining council: establish collective agreement for business in certain industry's
- Statutory councils in sectors that don't have bargaining councils
  - ✓ Solve disputes within their area of jurisdiction
  - ✓ Establish training and education schemes
  - ✓ Administer pension funds, provident funds, medical aid and unemployment schemes.
- Workplace Forums: solves problem at business level for each business similar to a student council

### **NEDLAC:**

- NEDLAC = National Economic Development and Labour Council
- Developed to ensure government, organised labour and employers are in agreement prior to labour policies that will impact on social and economical levels, are submitted to government.

## Grievance Procedure



### **Conflict Resolution according to the LRA**

1. Conciliation: two parties in dispute get together with a neutral third party.
2. Mediation: 3<sup>rd</sup> party (mediator) makes a recommendation to the parties, but the decision is still up to the original parties
3. Arbitration: the dispute is referred to a neutral 3<sup>rd</sup> party who will make a decision that is binding on both parties (Labour Court)
4. Appeal: if a party is unhappy about the decision that was made, they can then appeal against the decision with the Labour Appeal Court.

### **Industrial action: Strikes, Lockouts and other forms of industrial action**

#### Strikes

- ✓ it is considered a strike if two or more workers participate the reason must be to resolve a grievance or dispute.

#### protected strikes

- employees enjoy certain protection during a protected strike
- procedure need to be followed for a strike to be protected must follow the dispute resolution procedures:
  1. Issue must be referred in writing to the CCMA, a bargaining council or a statutory council
  2. The CCMA or council must try to settle the dispute through conciliation within 30 days
  3. If this fails, the CCMA or council must issue a certificate saying that the dispute has not been resolved.
  4. At least 48 hours' notice in writing of the proposed strike must be given to a private employer or seven days' notice if the state is the employer

#### A strike will not be protected if:

- ✓ A collective agreement specifically states that workers may not strike over the issue at hand
- ✓ The correct procedures have not been followed or if the arbitration decision is ignored
- ✓ The parties are engaged in an essential service.

### **During a protected strike:**

- employee may not be dismissed for going on strike employee may be dismissed for misconduct or violence during the strike
- The employer may not apply for a court interdict to stop the strike
- The refusal to work is not seen as breach of contract and the employee may not claim damages for loss of production from workers
- An employer does not have to pay employees participating in a protected strike. The “no work no pay” rule can apply.

### **Reasons for strikes/lockouts:**

- x Wage increases
- x A demand to recognise a trade union
- x Unhappiness regarding unilateral changes that the employer made to working conditions
- x In sympathy with a protected strike by another party
- x Issues of common national interest

### **Secondary action:**

- This refers to employees striking in support of a strike by other employees
- Secondary action will be protected if:
  - The main strike is protected
  - The secondary strikers give seven' days' notice to their employer;

## **Unfair treatment in the workplace**

### **Unfair discrimination:**

- The LRA state you may not discriminate against employees or applicant on an arbitrary reason e.g. Sex, religion, race

Two exceptions

- Affirmative action
- Excluding applicants or employees due to inherent requirements of the job

### **Unfair Conduct:**

- Relating to the promotion, demotion or training of an employee or the provision of benefits

### **Unfair suspension:**

- Refers to any disciplinary action short of dismissal.

### **Failure or refusal of an employer to reinstate or re-employ a former employee in terms of any agreement.**

- not giving a position back to a retrenched worker or unfairly dismissed worker

### **According to the LRA an employee is regarded as unfairly dismissed when:**

- An employer ends a contract of employment without notice to the employee
- An employer refuses to allow an employee to return to work after maternity leave
- Constructive dismissal takes places – the employer makes the working environment impossible for the employee to tolerate, which forces the employee to resign.
- An employee is dismissed because he took part in the activities of a trade union or work place forum
- An employee is dismissed when taking part in a protected strike or protest action
- An employee is dismissed due to pregnancy, or any reason related to her pregnancy
- The employee is dismissed on arbitrary grounds- race, age, religion, sexual orientation etc .

### **Remedies for unfair dismissal:**

- Reinstatement - giving the worker his job back, unless special circumstances exist:
  - ✗ The dismissed employee does not wish to return to work
  - ✗ The dismissal was only procedurally unfair
  - ✗ The working relationship between the parties has become intolerable
  - ✗ It is not practical to do so
- Compensation – the employer may be required to pay the employee either a set amount or a specified number of months salaries.
- A combination of reinstatement and compensation may be ordered by the CCMA.

### **Discipline in the workplace:**

The purpose of discipline in a work environment is to:

- ✓ Maintain order and ensure cooperation
- ✓ Avoid future problems by ensuring employees know what acceptable and unacceptable behaviour is
- ✓ Motivate employees to change their behaviour where necessary.

### **Reasons for Dismissal:**

- Misconduct
  - A situation where transgression of a rule took place e.g. theft, dishonesty, substance abuse, intimidation, assault or fighting.
- For incapacity
  - if an employee cannot perform duties properly owing to
    - (a) Illness or Ill health
    - (b) Inability

**Poor performance** implies that work standards have not been met. However, disciplinary action can only be taken once it is established that the employees was aware of:

- Expectations
- How failure to meet these standards will be dealt with.

As well as:

- The employee was given a fair opportunity to improve performance
- The reason for failing to meet the standard was investigated and that there is no other appropriate sanction i.e. dismissal if the only option.

**Probation** refers to a period where the new recruit works in the business and only after this period has been completed is the appointment confirmed. This allows the employer the opportunity to assess the performance of the employee.

- For operational reasons – e.g. retrenchment
    - The employer needs to avoid this as far as possible
- The employer needs to notify (in writing) employees and their trade unions of:
- ✗ The reasons for the proposed retrenchment
  - ✗ The alternatives considered
  - ✗ The number of employees who are likely to be affected
  - ✗ The proposed methods of selection of jobs involved
  - ✗ The timing of the proposed retrenchment
  - ✗ Offers of severance pay
  - ✗ Assistance offered/ prospects of re-employment in the future

### **Substantive fairness:**

A dismissal for misconduct is only considered substantively fair if:

- ✓ The employee broke a rule of conduct in the workplace
- ✓ The rule was valid or reasonable

- ✓ The employee knew of the rule or should have known of the rule
- ✓ The employer applied the rule consistently
- ✓ Dismissal is the appropriate step to take against the employee

**Procedural fairness:**

Refers to the correct procedure being followed when an employee is disciplined. It includes amongst other things:

- The employee must be notified of the reason for the disciplinary action
- The employee must be given sufficient time to prepare himself for the disciplinary hearing
- The employee has the right to state his case at the disciplinary hearing or can be represented by a fellow employee, trade union representative or a lawyer
- The employee has the right to an interpreter
- Any witness may be cross examined
- The employee has the right to be informed of the outcome of the disciplinary hearing
- To appeal should he wish to do so

**Implications of the LRA on general retail stores:**

Positive implications	Negative implications
Promotes a healthy relationship between employers and employees	Employers may not dismiss employees as there are procedures to be followed.
Provides specific guidelines for employers on correct and fair disciplinary procedures.	Employees may take advantage of their right to strike without taking into consideration their responsibilities
Labour disputes are settled quicker and are less expensive	Labour disputes and bargaining council processes become disruptive/ time consuming and can lead to a decrease in productivity.
Provides mechanisms such as statutory councils/collective bargaining/CCMA	Some business may feel that the LRA gives employees too much power as it creates lengthy procedures.



## **Basic Conditions of Employment Act, 1997 (BCEA)**

Aims to positively impact the working condition of South African workers

Specifically addresses the problems of

- inadequate protection for vulnerable workers (part time, farm workers and domestics)
  - Lack of mechanisms to set minimum wage
  - Child labour
  - Exclusively long working hours especially in transport industry
- 1) **Working hours**  
45 hours per week with a break after 5 hours max 9 hours a 5 day week and 8 hours per day for a 6 day week  
Overtime should be organised max 3 hours per day paid at 1.5 time normal pay
  - 2) **Leave**  
21 consecutive day per 12 months employment leave may not be converted to cash
  - 3) **Maternity leave**  
4 months consecutive leave for 12 months of employment 3 day family responsibility leave
  - 4) **Sick leave**  
30 day paid leave per 36 months cycle
  - 5) **Public holidays**  
paid for day where a public holiday falls on a working day. If employee required to work 2 x the normal pay is paid or time will be given off.
  - 6) **Notice of termination of service**  
1 weeks' notice if less than 1 month, 2 weeks if less than 1 year and 1 month if over a year.
  - 7) **Deductions**  
Employers must deduct UIF , income tax union fees but anything else needs to be approved by the employee

Positive implications	Negative implications
Promotes equal opportunity in the workplace.	Developing and drafting legal employment contracts may be time-consuming and costly
Promotes fair treatment in employment	Businesses may regard employment contracts as restrictive/negative and may refrain from implementing it, which will result in non-compliance
Prevents unfair discrimination	Non-compliance results in penalties which affect profit negatively.
Creates a framework for acceptable employment practices	No employer may force an employee to work more than 45 hours in a week. This may result in low productivity.
Encourages consultation between employer and employee	Hiring cheap labour is no longer possible, so businesses cannot exploit workers
	BCEA forces businesses to comply with many legal requirements, which may increase labour costs



## **Employment Equity Act (55 of 1998)**

This act seeks to eliminate unfair discrimination in employment and provides for affirmative action to correct the imbalances of the past with respect to access to employment, training, promotion and equitable remuneration, especially for Blacks, women and the disabled.

Implications of the Employment Equity Act (55 of 1998) on general retail stores and the economy at large:

<b>Positive implications</b>	<b>Negative implications</b>
Fair distribution of employment on all levels of management	Enforcement procedures are complicated as inspectors have to issue compliance certificates
Equal opportunity for designated groups (Black people, women and people with disabilities)	Hefty fines of up to R1 000 000 may be imposed for non-compliance
A more diverse workforce	Small businesses do not have the expertise to implement all aspects of the Act
Development of a work environment that supports the exchange of new perspectives	The development of Employment Equity Plan can be time consuming
Contributing to creating a respectful work environment	Businesses have to deal with unhappy employees from non-designated groups
Attracting and retaining the skills and expertise required to serve new markets	

## **Black Economic Empowerment (BEE) Act**

### **BLACK ECONOMIC EMPOWERMENT BEE**

This act supports the development and economic empowerment of historically disadvantaged persons each industry has a BEE score card to assess their degree of compliance. The result is that any business wishing to engage in an economic activity with the government department must be seen to be supporting this initiative

The government try and implement a system of making BEE compliant companies the preferred suppliers on government contracts and tenders.

### **BROAD BASED BLACK EMPOWERMENT BBEE**

Due to the short comings of EE, BEE and Affirmative Action the desired effect has not been achieve by previously disadvantaged people being introduced into managerial positions and meaningful ownership

Three aspects to the BBEEE act

- ✓ Direct empowerment through share ownership in business. This may introduce black partners or selling shares to black people only or for a reduced rate
- ✓ Skill development resulting in possible promotions and higher salaries for black people
- ✓ Indirect empowerment through preferential treatment in granting government tenders, contracts as well as licences to business with certain BBEE status

5 elements (pillars) to the BBEE scorecard

- ✚ Black Ownership
- ✚ Management and control
- ✚ Skill development
- ✚ Preferential procurement (black owned suppliers)
- ✚ Socio-economic development

Three of the FIVE pillars are considered priority pillars.

1. Ownership
2. Skills Development
3. Enterprise & Supplier Development (ESD)

A minimum of 40% compliance is mandatory for these priority pillars

Positive implications	Negative implications
A good BBBEE rating will improve the image of the business	Investment and ownership issues can cause animosity between shareholders
It boosts staff morale by developing the employees potential and skills	It can lead to corruption, nepotism and cronyism
BBBEE can be used as a tool for marketing the business to other businesses looking for a BBBEE compliant supplier	Many employees get jobs based on BEE rating rather than on their qualifications or proficiency
Improves the income distribution and as a result the standard of living of the growing black middle class	Implementation of BEE has been poor and the intended objective of uplifting the masses has not been achieved.

### **Skills Development Act (97 of 1998) and Skills Development Levies Act (9 of 1999).**

Act was a combined effort by minister of education and minister of labour

Act aims to provide the quality and access to learning at school and in the work place SAQA is responsible for developing a national qualifications framework

This ensures that people have access to and receive credit for learning that has taken place provides

South African has a lack of skilled labour 80% of our work force is semi-skilled or unskilled

Aim of the skills development act

- ✓ Use the workplace as a place of learning
- ✓ Improve the level of investment in education and training
- ✓ Ensure that quality training is offered
- ✓ Improve employment opportunities for disadvantaged people
- ✓ Encourage workers to get involved in training programmes
- ✓ Encourage entrepreneurship by providing training where necessary

#### SETA

Each business sector has formed a Sector Education and Training Authority (SETA) to prepare training programmes, promote learnerships and control funds in that sector.

#### Application of SDA in Business Enterprise

employers are entitled to claim part of the Skills Development Levy back when providing skills development programme.

Positive implications	Negative implications
Promotes a motivated and well-trained workforce.	Relevant SETA accredited training programmes are hard to come by
Business can contribute to reversing the educational imbalances of the apartheid regime	The 1% Skills Development levy is an additional cost for the business
With well-trained workers the business can become more successful and profitable	Labour costs increase because more administrative staff will be needed to administer the process
Workers can learn while working. This saves businesses money as they wont have to use other facilities or institutions, funds for training can be accessed from the SETA instead of using the business budget.	The application procedure can be complicated.
As workers get more skilled they can be promoted and improve their income and lifestyle, creating new job opportunities at the low skill levels for others.	

# CHAPTER 10 : INVESTMENT OPPORTUNITIES AND INSURANCE

## SECTION A: INVESTMENTS

- Investment takes place when money is saved in order to make it grow.
- The amount invested is known as the capital contribution. It can thus be said that investing is the creation of more money through the use of capital.

### Major Asset Classes and Risk

#### 1. Cash-Low Risk



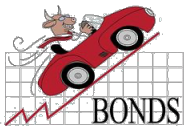
- Cash will not generate a fortune, although it can safe-guard them against losing one.
- Cash investments, including bank deposits and money market accounts, offer investors the assurance of a regular interest income and the knowledge that their capital will not be subject to huge external fluctuations.
- But cash also carries risk. There is no guarantee that the capital sum will be protected against inflation, as this investment does not have any interest growth potential.

#### 2. Property – Moderate to High Risk



- Property is often the biggest asset in a person's investment portfolio.
- Property can keep up with inflation and can be a very effective way of gearing. (the ratio between own capital and borrowed capital)
- Risk depends on the location of the property and the political and economic environment. One big drawback of this asset class, however, is its lack of liquidity (i. e. the fact that investors cannot sell property as quickly as investments in other asset classes)

#### 3. Bonds-Moderate Risk



- can be defined as interest-bearing securities issued by government or companies in order to borrow money.
- In essence, it is an 'IOU', with which government or the company promise to pay the lender interest and to pay back the lender's capital sum by a specific date.
- This asset class offers a moderate risk. The capital sum that is invested can fluctuate, while the interest payment on the bond can be higher than on cash.

#### 4. Equities (Shares) – High Risk



- Shares are a proportionate ownership of a company.
- A company determines how much capital is necessary to start or expand the business and then decides how to raise this capital – often through the sale of shares.
- Have the best chance of beating inflation
- Shares are always a risky form of investment as there is no guarantee that prices will remain stable or increase.
- Aim = capital growth
- South Africa makes use of the Johannesburg Stock Exchange LTD which provides a market for dealing in listed shares and securities
- The JSE also has a Social Responsibility Index (SRI) for companies that meet certain criteria when it comes to CSR involvement.
- Prices for shares are based on supply and demand, therefore share prices fluctuate

**Reasons people may invest in shares:**

- Potential capital growth
- Income in the form of a dividend – this is the portion of the company’s profit that is distributed to shareholders.

**Types of shares:**

- **Preference shares** – Holders of preference shares can participate in the profits of a company before the dividends are declared to ordinary people and other shareholders
- **Blue Chip shares**- Shares in the most solid companies and have a steady growth pattern
- **Green Chip shares** – shares in companies that are environmentally friendly
- **Black Chip shares** – shares in companies that are BEE compliant

Cost of buying equities:

- × Stock broker fees
- × Marketable Securities Tax (MST)
- × Value Added Tax (VAT)
- × STRATE Levy– electronic system used by the JSE

<b>Advantages:</b>	<b>Risks:</b>
<ul style="list-style-type: none"><li>○ Much higher return than most other investment options</li><li>○ Returns normally beat inflation</li><li>○ The value of shares grow as the company expands</li><li>○ Shareholders receive dividends</li></ul>	<ul style="list-style-type: none"><li>○ Volatile Markets</li><li>○ Share prices are linked to factors beyond one’s control</li><li>○ It takes a long time to get the best results</li></ul>

**Various Investment Options – (fall under the major asset classes)**

**Retirement Annuities**

- An annuity is usually bought with retirement savings.
- The Retirement Annuity (RA) can therefore be seen as a type of savings plan specifically to provide money for retirement.
- A monthly premium (payment) is made in return for a lump sum and monthly pension after you retire at an age of between 55 and 65.
- Payments from the RA serve as retirement income or pension and may be made monthly or annually and may be for a specified term or until death.
- The amount received is dependent on the size of the contribution (premium) and how long the contributions were made.
- As an incentive to encourage people to save for their retirement, the government gives a tax relief on premiums paid towards an RA.

Benefits of an RA:

- ✓ An RA is a tax benefit
- ✓ It is a disciplined way of saving
- ✓ Even if you become insolvent the money in your RA stays safe
- ✓ It can be used to build up a post-retirement medical savings fund that has a tax benefit

### **Pension Fund**

- A Pension Fund is also a form of retirement savings. However, an employer joins a pension fund to facilitate and organize the investment of employees' retirement funds.
- This fund is contributed to by the employer and employees, in vary combinations.
- The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.
- Pension contributions are deducted before calculating taxable income. This is another positive reinforcement to encourage employees to save for their retirement.

### **Endowments**

- An endowment policy is a savings plan in which a monthly amount is invested for a specific period of time, usually 5 or 10 years, and the assurer agrees to pay out on maturity of the policy.
- Most endowments offer choices of where the investor wants their money invested and the risk they are prepared to accept.

<b>Advantages:</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>○ You can make lump sum contributions or recurring contributions</li><li>○ Various time frames one can take an endowment out for.</li></ul>	<ul style="list-style-type: none"><li>○ A pure endowment policy will, however, carry no death benefit and only pays out at the end of the specified term.</li></ul>

### **Unit Trusts**

- A unit trust is a group of investors who 'pool their capital' to invest in financial markets.
- Instead of buying and owning shares or bonds yourself, you buy units in a portfolio of shares or bonds.
- Three parts to a unit trust investment:
  1. The Unit Trust Management Company that manages the investment on behalf of the investors
  2. The trustee company, usually a bank or insurance company, which is responsible for the safekeeping of the portfolio assets.
  3. The unit holder, i.e. you and a whole group of other investors.
- Unit trusts are divided into the following categories:
  - Domestic funds – which invest a maximum of 15% of their assets outside South Africa
  - Worldwide Funds – invest between 15% and 85% of their assets outside South Africa
  - Foreign funds – invest more than 85% of their assets outside South Africa.
- Advantages:
  - ✓ It beats inflation -high returns
  - ✓ One can cash in unit trusts at any time and without incurring penalties
  - ✓ It is not as volatile as equities
  - ✓ Small amounts can be invested
  - ✓ Unit trust holders receive dividends and they are reinvested to grow your unit trust portfolio
  - ✓ It is a longer investment time-frame
  - ✓ The portfolio is managed by a team of investment experts who study and understand the equity markets
- Risk:
  - The funds are invested in shares on the stock market where volatility occurs and that the investor relies on the judgement of the fund manager. i.e. no direct control of the investment.

### **Notice Deposits:**

- Notice Deposits are types of savings accounts which require the account holder to give notice of withdrawal of their cash.

There are 3 types of notice deposit accounts:

- a. Call account – cash is available within a certain notice period being given. Interest rate on a call account is higher than that of a normal savings account
- b. Fixed deposit – investor deposits the money for a fixed period of time. Interest rate is higher than that of a call account
- c. Money market – interest bearing account that typically pays a higher interest rate than a savings account. The interest rate is based on current interest rates in the money markets.

### **Collectibles**

- This refers to an investment in collectibles such as coins, diamonds, stamps, art and antiques
- Have the potential of capital gains over the medium to long term.

Disadvantages:

- × Investors earn no monthly income from collectables
- × A high level of expertise is required before you can trade in collectibles for profit
- × Collectibles are often expensive and have volatile capital values
- × Gold coins have much of their value resting in the gold price at the time
- × Art and antiques are difficult to value and to transport safely.

### **Off-shore investments**

- Refers to investing in other countries
- Returns on a foreign investment are based on:
  - Price movements
  - Exchange rate fluctuations
- Reasons for investing off-shore:
  - ✓ Diversification
  - ✓ Foreign financial markets may offer better value than the South African markets
  - ✓ International markets offer investment opportunities that may not currently exist locally
  - ✓ Emigration: If you are planning to emigrate, you can start investing in the country where you would like to end up living.

### **Debentures**

- A debenture is a loan to a company and earns a certain interest rate
- The investor will receive their capital investment back at a certain predetermined date in the future.
- Advantage: there is a legal obligation from the company to repay the capital amount of the debenture and the interest.
- Unlike a shareholder, the debenture holder does not become an owner of the business but is rather a creditor.



## Investment Strategies

### Conservative Investment Strategy

- The investor is looking for a high degree of income while maintaining a capital investment with a very low level of risk. A conservative portfolio will have more investments in bonds, property and cash, with less investment in shares (equities).

### Defensive Investment Strategy

- This is applied when an investor is mostly looking for a stable income from the investment but he also wants a growth in capital with a low level of risk. If a defensive strategy is followed, the majority of the investment will be in bonds, property and cash, with a relatively low weighting in equities.

### Balanced Investment Strategy

- The investor is looking for a combination of both growth and income with a moderate level of risk over the medium to long term. Investors want to see capital growth as well as earn some income from their investments. A balanced portfolio will entail investment in shares (equities) and in bonds.

### Growth Investment Strategy

- The investor is prepared to take a higher level of risk over the long term. The main aim is to obtain long-term capital growth with little concern for earning current income from investments. Investments will be heavily in equities but less risky than the market as a whole. The higher the growth requirements, the higher the risk will be.

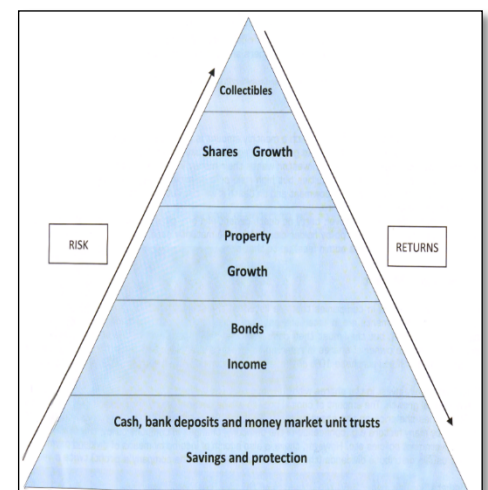
## Risk Profiling

Most investment brokers and companies will complete an investment risk profile for the potential investor in order to determine the type of investment options best suited to the investor and his/her personal circumstances. The risk profile will help to create an understanding of the investor's tolerance for risk.

- Determining the **investment time frame** is very important because the general rule is the longer the investment time horizon, the more the customer can afford to have an investment mix of high- and low-risk investments.
- The **financial position** is important to consider when a decision is taken on the size of this potential investment relative to the total wealth of the investor's portfolio (the total net asset worth). The greater the need for income from the investment, the more balanced or conservative the choice of investment should be.
- **Risk and return considerations.** If the investor is looking for a high return then more risk will need to be taken i. e. an aggressive investment strategy.

## Diversification

Most investment plans should include a combination of the four major asset classes, because of the benefits of diversification. Diversification refers to the spreading of investment risk between the various asset classes.



## **Investments and Taxation**

### **Income Tax on Interest and Dividends**

- The income on your investment is taxable
- The interest you earn on your investment is added to your gross income and taxed at your individual tax rate.

### **Capital gains tax**

- A capital gain is the difference between the selling price of the asset and the cost when it was purchased. Tax is charged on this.

## **SECTION B: INSURANCE**

**Insurance:** The insured takes out insurance in case something happens.

**Assurance:** Taken out to cover a risk that is certain

### **Types of Assurance**

- Life assurance – covers the loss of life
- Term assurance – life cover that is valid for a specific period/term. Usually taken to cover a person during a debt period
- Endowment – an investment policy that pays out after a specified time period
- Retirement Annuity (RA) – Taken out to provide an income on reaching retirement age.
- Disability cover – insured will be paid out a certain predetermined amount on disability
- Trauma cover or dread disease cover – covers a list of serious illnesses.
- Funeral cover – used to pay for funeral costs

### **Non-Compulsory Insurance**

#### **Insurable Risks**

- **Fire insurance:** covers damage resulting from a fire to a building, stock, equipment etc. Included in the contract is damage caused by smoke and/or water used in the process of extinguishing the fire.
- **Vehicle insurance:** The two options available include Third party, fire & theft OR Fully comprehensive insurance.
- **All-weather insurance and damage and theft insurance:** These are usually covered by homeowners' and household policies. The all-weather insurance covers damage caused by storms, hail, floods, lightning, earthquakes and burst water pipes. Theft insurance covers forced entry when the business is closed to the public - this is known as burglary.
- **Insurance of money in transit:** e. g. covering cash receipts being transported to the bank. The maximum amount covered will be specified in the insurance policy.
- **Fidelity insurance** covers losses sustained due to dishonesty of employees, e. g. theft of money or fraud.
- **Liability insurance** covers people who become liable for losses caused by their negligence or by defects on their property. A public liability policy indemnifies the insured for an amount that they may have to pay through such a liability

- **Crop insurance** may be taken out by farmers to cover loss or damage to their crops as this IS their main source of income.
- **Group life cover** occurs when a business insures its workers for an amount equal to their annual salary multiplied by a factor
- **Loss of income insurance** is an important insurance cover for entrepreneurs, i. e. self-employed business people, but also for employees.

### **Non-insurable risks**

**Normal operational risks**, for example:

- Inflationary factors.
- Changes in fashion,
- Improvements in machinery,
- Losses from bad debts can be insured against but premiums are very high.



**Losses caused by war**, nuclear weapons and radiation are seen as the responsibility of the government and are thus not generally insured.

**Illegal activities** or activities that are against public interest are not insurable, e. g. taking out insurance against being fined for an illegal act.

### ***Compulsory Insurance***

#### **Unemployment Insurance Fund:**

- ✚ The fund is administered by the Department of Labour
- ✚ Covers employees against loss of income if they do not have a job e.g. if the worker is retrenched or on maternity leave
- ✚ UIF contributions are made by both the employer and the employee. UIF calculated at 2%. 1% employer and 1% employee.
- ✚ Public servants, foreigners on contract and people employed for less than 24 hours a month are excluded from this fund .
- ✚ Pregnant women can also claim but will only receive benefits for 17 weeks.

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

- ✚ Requires that employers take out compensation on behalf of their employees to protect employees against injuries or death at work
- ✚ COIDA protects the employer from claims made against him by the employee
- ✚ Compensation is provided to the employee or his family in the case of the employee being unable to work due to an accident whilst being at work.
- ✚ Medical expenses and loss of earnings are also covered
- ✚ If the employee is disabled due to an accident at work, he may claim benefits and if he dies, his dependants will qualify for compensation
- ✚ COIDA does not apply to military staff, the police force, domestic workers or casual workers
- ✚ The fee is paid to the Compensation Commission annually and is based on the employee earnings and the risk associated to their profession

### **Road Accident Fund**

- ✚ This is a compulsory insurance that applies to motor vehicles.
- ✚ Innocent drivers and passengers are covered against financial losses suffered due to injuries as a result of an accident on the road.
- ✚ Compensation includes:
  - ✓ Hospital and medical expenses compensated at private hospital rates
  - ✓ Future hospital and medical expenses anticipated
  - ✓ Loss of income
  - ✓ Future loss of income anticipated
  - ✓ General compensation for pain and suffering will only be paid for serious injuries
  - ✓

### **Requirements of a valid insurance contract**

#### **Insurable Interest**

Insurable interest means that the insured must be able to prove that he will lose financially if the object that has been insured, is destroyed or damaged. The person or object at risk forms the basis of the contract. The following are examples of insurable interest:

- A person has an insurable interest in his own life and health.
- Partners have an insurable interest in the lives of co-partners.
- A creditor has an insurable interest in the life of his debtor.
- A married person has an insurable interest in the life of the spouse.
- A person has insurable interest in his own property.

#### **Good Faith/Absolute Honesty**

The insured must disclose to the insurer all relevant information that may affect the risk. All questions asked by the insurer must be answered honestly and accurately, otherwise the policy will be declared null and void.

#### **Additional requirements for a valid contract:**

- Contractual Capacity
- Legal age (Usually 18) and sound mind
- Intention to bind
- Executable – reasonable conditions that can be complied with
- Obligation – Both parties must be clear about what is expected of them
- Legally Binding
- Communication of Intent – must be specific and made clear to both parties

### **Concepts Relating to Insurance and Assurance**

- **Indemnification:** The insurer undertakes to indemnify the insured in the event of a specific loss. Only the actual loss will be compensated. The insured cannot claim more than what has been lost. If there is no loss after an accident, there is no compensation/indemnification. Indemnification means that, as far as possible, the financial position of the insured will be the same as it was before the loss.
- **Security:** The main purpose is to give security to the insured's dependants in the event of the insured dying or reaching a certain age
- **The Average Clause:** The average clause stipulates that if the property is not insured for the full value, the full value of the loss will not be paid out.
- **Under-insurance:** If the property is not insured for the full value, it means that the insured has not been paying a premium that covers the risk. The premium paid is too low, as premiums are based on the value of the item

- **Over-insurance**; this refers to a situation where goods are insured for more than their value. The insured would pay a higher premium than is necessary, but they will not benefit from it in the event of a claim as the principle of indemnification states that no-one is allowed to make a profit from insurance. In this case the re-insatement clause is usually applied. This means that the insurer has the option to restore or rebuild the insured property.
- **Excess**; this is the amount on each claim that is not covered by the policy. The excess amount is specified in the Insurance policy and the insured will have to pay the first R1 000, R5 000 or whatever amount has been specified in the contract.
- **Re-insurance**; Insurance companies are often unable to cover the full risk of a large insurance policy. When this happens the insurance house places a portion of the risk that they cannot cover with a professional re-insurance company. The risk is then spread among the re-insurance companies.
- **Proximate Clause**: the insurer is only responsible for losses that are the direct result of the event that was insured. For example: Fire insurance covers risks directly related to a fire.
- **Subrogation** is based on the principle of indemnity, which means a potential loss is covered. If the person does suffer a financial loss as a result of the event covered, one may only claim recovery from losses ONCE. The insured may claim either from the insurance company or from the guilty party but not both.
- **Cession or Assignment** Any rights that the insured has in a policy may be transferred to another person when a written clause is added to the policy
- **Surrender Value**; Life insurance policies and investments such as endowment policies build up a value over time. Should the policy holder wish to end the policy before its full term, the insurance company will determine the monetary value of the policy at that time,
- **Paid-up Value** In some cases a policy may be 'paid up' instead of surrendering it. This means the policy remains in place but no further premiums are paid and the value is adjusted less than it would have been if the policy holder kept contributing premiums. Only policies with surrender values may be paid up.

**Advantages of insurance [reasons for insurance].**

- Insurance protects a business as well as individuals against different kinds of insurable losses,  
e. g. fire or theft or any other risk they choose to insure against.
- Through indemnification, insurance enables businesses or individuals to be put back in the same financial position as prior to the event.

**Disadvantages of Insurance**

- Insurance premiums are costly
- Money paid on premiums could be used in investments
- Items that are normally stolen, such as laptops and cellphones are often excluded from the policy.

**Advantages of assurance [reasons for assurance].**

- Life assurance provides security to families because breadwinners can make provision for their dependents by taking out life assurance.
- Life assurance policies can be ceded to a bank or other financial institutions as security for a loan.
- Life assurance protects creditors, i. e. if the debtor dies before the loan is repaid the life assurance will cover the amount outstanding on the loan.
- Assurance provides security by making provision for the payment of medical and hospital expenses and compensation in the event of accidents and unemployment.

**Disadvantages of Assurance**

- The policy may not be sufficient enough to provide for remaining family members
- Assurance is costly and affects current cash flow for the sake of long term benefit
- The type of assurance policy to invest in is a complex decision as each individual has different needs.

# CHAPTER 11 : Performance Management

## Total Quality Management

To ensure good performance of the overall system, the components must operate efficiently and effectively. This requires a culture of continuous quality monitoring and improvement throughout all departments and not just the manufacturing department.

### Advantages of quality control:

- Improved profitability because less time and money are wasted on correcting something that should have been done better in the first place.
- Quality control will help to encourage workers to deliver good quality products and services that may serve as a basis for remuneration decisions – will improve morale and reduce staff turnover.
- Distributors such as wholesalers and retailers will have fewer complaints and comebacks, which may translate into a higher turnover for them.
- Problems relating to quality issues create an opportunity for improvement.

### Customer improvement

- Quality improvement should not only be the focus of production, but should be the focus of all other departments (business functions).
- The customer's first impression of the quality of service is often based on the responsiveness or willingness of the staff to assist.
- Value-driven leadership should be the focus of service businesses, in order to ensure the quality of the service offered exceeds the expectations of the customers.

### Performance Gap

Performance Gap = Desired performance - Actual Performance.

The performance gap may be the result of changes in either or both the internal and external environment, and the success of the business will depend upon how these changes are dealt with. This requires urgency and shorter response times to bridge any performance gap.

### General Management

- Planning is a management tool and is a means to achieve an end
  - Poor or insufficient strategic planning at top management level could fail to provide the business with a sense of direction.
  - No support for the implementation of the strategic plan from top management, will result in the plan failing. This could be improved by ensuring that the plan is in writing and that there is a common understanding of that is to be achieved.
  - The plan should be aimed at setting up future objectives but should be flexible and adaptable enough to deal with current realities and changes.
  - Plans should be accurate and objective, with all factors and alternatives considered before the plan is finalised.
  - Planning must be realistic and economical
  - Communication, timing and KISS should be kept in mind.
  - Ensure to include the HOW component. How will the plan be achieved?

## **Human Resources/ Human Capital**

- Through training and coaching, the HR function can assist other functional managers to create an atmosphere conducive to continuous quality improvement.

### **HR Roles:**

- HR should organise training programmes to help all functional managers and employees understand that improving quality is not the sole responsibility of the production department, but should be a priority for every employee.
- Develop and implement an organisation structure that will promote the goals of the business – employees must understand the relationship that exists between different departments.
- Ensure that there is an efficient feedback mechanism – e.g. performance appraisals.
  - 360 degree feedback allows additional information on performance to be collected from peers, subordinates, customers and also through self-evaluation
  - Self-evaluation is another tool that can be used to monitor and assess personal performance
  - Feedback provides people with information on how well goals were achieved and therefore allows for the opportunity to correct errors and to make progress towards the attainment of objectives
- Employees need to be motivated to achieve the goals of the business

## **Finance**

- The owners invest capital in a business and expect a certain return on their investment. Therefore, the financial department must ensure that these expectations are met.

### **Liquidity Ratios:**

#### **a. Current Capital Ratio (Current Ratio)**

- This ratio refers to a business's ability to pay off their current debts with current assets.
- Current assets are all the assets in a business that can be converted into cash within a year (Debtors control, bank, trading stock, petty cash, cash float). Current Liabilities are debts that are payable within one year (Creditors control, Short term loan).

#### **Ratio**

**Current Assets: Current Liabilities**

- Acceptable Ratio is 2:1.
- Too high – too much cash in the bank, credit given to easily (Debtors) or too much stock kept
- Too low- Risk that current liabilities may not be paid from current assets.

#### **b. Acid Test Ratio**

- This test measures a business's ability to use its quick assets to pay off the current debts.

#### **Ratio:**

**Current assets – inventory : Current liabilities**

- Acceptable ratio is generally 1:1
- Inventory is eliminated because it is the least liquid of the current assets i.e. the most difficult to convert to cash.

### **Return on investment (ROI or profitability)**

**(Net profit / own capital) x 100**

- ROI is the same as the profitability of the business. It measures the ability of the business to generate a profit with the capital that was invested.



- Own capital in a company= ordinary share capital + preference share capital +share premium +retained income
- The higher the ROI, the more satisfied the shareholders will be with the financial performance of the business.
- This should be compared to other forms of investment when deciding on the success of the investment.

### **Solvency Ratio**

- This ratio measures whether a business's assets are more than their liabilities.
- If all the assets were converted to cash would the business have enough money to pay all their debts both long term and short term?
- Total assets refer to current assets plus non-current assets
- Total liabilities refer to current and non-current liabilities
- **Ratio**  
**Total assets: Total liabilities**
- If the business has more liabilities than assets, they face the possibility of becoming insolvent

### **Purchasing Function**

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

Supply chain elements :

- A supply chain consists of all the activities relating to the flow of goods, services and information that come into and out of a company.

Elements:

- Purchasing the resources necessary to make the company's goods and services
- Production of the goods and services from the resources acquired
- Managing the inventory of materials necessary for products and the inventory of finished goods and services
- Transportation & distribution of the resources necessary for production and distribution of goods and services to wholesalers, retailers or through direct sales to customers.

### **Production function**

- Product specification is a prerequisite for good quality and improved performance in a production environment. – setting parameters makes it easier to control the quality of raw materials and therefore also the quality of the finished product.
- Factors affecting quality control in a production environment may include:
  - There has to be a system to record where deviations/problems occur
  - Job tolerances ('acceptable problems') must be defined
  - It has to be decided how many inspection points are required
  - The number of inspections per inspection point should be specified
  - Reliable and efficient inspection methods should be used
  - The human element will also impact on the quality of the product. Workers have to be trained, have good working conditions and be motivated to give of their best.

- Two basic inspection methods can be used.
  - 1) Sampling – testing a few products from the batch.
  - 2) Inspection – each product is tested and compared with quality standards. Usually used for more expensive/luxury products.

Commercial standards:

- ✓ Important when a business uses mass production
- ✓ A commercial standard is a detailed quality description used to manufacture standardised products. E.g. SABS mark
- ✓ SABS – concerned with the standardisation of manufactured products in commerce and industry.

## **Marketing Function**

Some of the results from a successful marketing campaign may include:

- Protecting revenue streams or increasing revenue
  - Creating or improving brand value
  - Maintaining or expanding the customer base
  - Building goodwill (customer loyalty)
- The performance of the marketing department will impact on the overall performance of the business.
  - Market research is an important tool that can be used by the marketing department to gather information on any variable in the market environment and to get feedback from customers and suppliers. This information can be used in decision making.

Different variables a manager should consider:

- Manageable variables – marketing mix and marketing objectives that fall under the direct control of the marketing manager.
- Semi-manageable variables – can possibly be influenced by the marketing manager
- Non-manageable variables – exist in the external environment and cannot be controlled, they should be accommodated in the marketing and overall planning of the business

## **Public Relations function**

- Public relations is responsible for maintaining communication between the business and its stakeholders.
- Difficult to evaluate the performance of this function due to the nature of the work involved.
- Question to ask: Has the PR department had a positive or negative impact on the overall image of the business?

## **Administrative Function/Information management**

- The performance of this function can be assessed based on the level of compliance to the processes and systems that are essential to the function of the entire business.
- Information being recorded or managed incorrectly, can have an effect on all the other functions.
- Is admin doing what it needs to do to enable all other functions to do what they need to do?

## Risk Management Assessment Strategies

- ❖ Solid policies and strategies will help to manage risk.
- ❖ The Occupational Health and Safety Act requires employers to take precautions and make provision for all possible risks.
- ❖ Risk assessment would be a detailed plan that would specify:
  - Who would be in charge in an emergency?
  - Other critical duties
  - Emergency equipment required
  - Escape routes and procedures
  - Workers should be adequately trained in emergency procedures, have regular evacuation practices and be kept up to date on changes and new developments

## **Techniques that can be applied throughout the organisation to improve performance**

### **1. Risk Management**

- This involves the identification, analysis, assessment, control and hence avoidance, minimisation or elimination of unacceptable risk that poses a threat to capital or income of a business.
- Organisations may do the following:
  - Risk reduction by adjusting processes
  - Risk avoidance by deflecting threats
  - Risk retention as the profit motive outweighs the risk
  - Risk transfer by taking out insurance or a combination of these in managing risk

All risk management plans follow more or less the same steps that combine to make up the risk management process:

- Risk identification – identify and define potential risks that may negatively impact the business
- Risk analysis – gain insight into the possibility of the risk occurring as well as the impact it may have
- Risk assessment and evaluation – further evaluation to determine if the risk is likely and if it is acceptable to the company to take on the risk in return for the potential reward
- Risk mitigation – the company assesses their highest ranking risks and develops plans to alleviate them
- Risk monitoring – follow up and review of the risk process. Track new and existing risks.

### **2. Logistics Management**

- Logistics management is the improved efficiency of each department within a business by streamlining its operations and costs and thereby increasing its profits.
- Streamlining operations means that there is minimal wastage in terms of time, labour, resources and money.
- This is part of the supply chain management that plans, implements and controls the efficient and effective forward and reverse flow and storage of goods and services and related information.
- Logistical networks and networks may include:
  - Procurement – ensuring the correct materials / products are available
  - Distribution – Transportation
  - Disposal of waste
  - Reverse/reuse and sale of products
  - Green / eco-friendly logistics
  - Asset control logistics
  - Business logistics i.e. the right quantity at the right place at the right time and at the right price.

### **3. IT development**

- Overall performance of a business can improve if technological systems are used that are user friendly and can handle a lot of traffic.
- Money should be allocated in the budget towards upgrading the IT department. ‘

### **4. Total Quality Management (TQM) and Total Customer Satisfaction**

- This refers to an effort implemented throughout the entire business (TOTAL) to plan and control (Manage) the standards (Quality) of all operations in order to deliver the best product or service to the customer.
- Total Customer Satisfaction is a key element of TQM. Organisations rely on their customers for success and should therefore understand current and future customer needs,
- Customers will only be satisfied if they receive:
  - Value for money
  - Products or services that are delivered when expected
  - Good quality goods are received.
- In the service industry, the customers’ perception of quality is of great importance. The customer’s first impression of the quality of service is often based on the friendliness or willingness of the staff to assist.
  - Customer service should embrace an attitude of empathy
- In an organisation where a tangible product is sold, the business needs to ensure that it is a product of good quality and that the product and packaging adheres to the requirements of the Consumer Protection Act.

### **5. Benchmarking**

- This is a process where the business looks at its own methodologies to perform a task and then compares it to the methods used elsewhere.
- The business can take what was learnt from others and implement these practices to improve the overall performance.

### **6. Business Process Re-engineering (BPR)**

- This involves a radical rather than a gradual improvement of processes and may even result in a complete redesign if it will improve quality and performance.

### **7. Quality Circles**

- A small group of employees from the same department meet to identify and discuss any issue that will impact on the quality of performance.
- The involvement of employees in quality control tends to increase their motivation when given the opportunity to make recommendations to management.

### **8. Balance Scorecard**

- Strategic management tool used to assess the performance of a business by looking at the following focus points:
  - Financial Perspective
  - Customer perspective
  - Internal (business) process perspective
  - The learning and growth perspective.