GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER 1

INFLUENCES AND CHALLENGES OF THE BUSINESS ENVIRONMENTS

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

INFLUENCES AND CHALLENGES OF THE BUSINESS ENVIRONMENTS

Learners must be able to:

- Outline the components of the micro, market & macro environments. (Recap)
- Explain the reasons why businesses has more control over the micro environment/less control over market environment and less control over macro environment.
- Identify the challenges of the business environments from scenarios/case studies/statements and examine the extent of control a business has over these environments.
- Discuss/Explain/Describe how businesses can control the business environments.
- Recommend/Suggest ways in which businesses can be involved in the macro environment.
- Outline/Name/Discuss/Explain the challenges of the micro environment.
- Identify these challenges from given scenarios/statements. Quote from scenarios/Statements to support your answer.
- Differentiate between strikes and go-slows.
- Outline/Name/Discuss/Explain the challenges of the macro environment.
- Identify these challenges from given scenarios/statements. Quote from scenarios/Statements to support your answer.
- Recommend ways in which businesses can overcome competition in the market.
- Identify the impact of socio-cultural factors on businesses from scenarios/case studies and make recommendations on how businesses can address this challenge.
- Outline/Name/Discuss/Explain the challenges of the market environment.

Terms and Definitions

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

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Strike	A work stoppage as a form of protest or to strengthen one's bargaining position
Industrial action	These are actions that include strikes or go slows
Open market	A market where there is no control over who may provide goods and services or over the prices that can be charged
Demographics	Statistical data relating to the population and particular groups within it. Often incudes age, gender, income groups and occupation.
Psychographics	The classification of people according to their attitudes, aspirations and other psychological criteria.
Globalisation	Greater trade and collaboration between businesses or people in different countries which is enabled by technological advances and communication.
Physical environment	This is an environment that is comprising of the ecological elements such as natural disasters, air pollution, water pollution, deforestation, waste products or natural resources
Institutional environment	These are private-public partnerships which are formed between government and private enterprise
Redressing	To make amends or to set right
Nepotism	The practise of showing favouritism towards one's family or friends in economic or employment terms
Retrenchment	Involuntary ending of a service contract of an employee by the employer due to operational requirements.
Go- slows	When employees work more slowly and with less effort than usual to try to persuade an employer to agree to higher pay
Trade union	An organized association of workers in a trade , group of trades, or profession formed to protect their rights and interest
Strike	A work stoppage as a form of protest or to strengthen one's bargaining position

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

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

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1.1 Reasons why businesses has more control over the micro environment/less control over market environment and less control over macro environment

Micro environment

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

Market environment

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

Macro environment

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

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

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

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1.3 Benefits/advantages of involvement in macro environment

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

2 CHALLENGES OF THE BUSINESS ENVIRONMENTS

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

2.1 Explanation of the challenges of the business environment

2.1.1 Challenges of the micro environment

Difficult employees

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

Lack of vision and mission statement

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

Lack of adequate managerial skills

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

The impact of unions

- Trade unions may create tension between management and employees.

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

Strikes and go-slows

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

Differences between a strike and go slow

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

Skills shortages among employees

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

High employee turnover

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

Employee absenteeism

- Employees' absenteeism reduces productivity and affects profitability.

2.1.2 Challenges of the market environment

Competition

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

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- Essential for a business to have a regular supply of all the materials that are inputs in the production process.
- Dissatisfied customers can damage the reputation and threaten the future of the business.

Shortage of supply

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

Changes in consumer behaviour

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

Demographics and psychographics

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

Socio-cultural factors

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

2.1.3 Ways in which businesses can overcome competition in the market

- Management must ensure that the business differentiates itself from the competitors by tapping into what the customer wants.
- Offering more personal services by being responsive to the customer’s needs/ expectations.
- Offering low-cost extras such as improved credit terms/discounts/loyalty schemes etc.
- Charging the lower prices√ than that of the other businesses.

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- Selling products of a superior quality/new products/services that the customers might be interested in.
- By being the best employer that has well trained/knowledgeable staff members that create a better working atmosphere.
- Stepping up the marketing of the business by using promotional ideas such as posters or campaigns on social media.
- Updating the image of the business such as painting the front of the premises/ making the business looking modern/ inviting.
- Keeping up with developments in the sector of the business sector, following consumer trends/investing in new technology.
- Improving on customer services and keeping them happy.

2.1.4 Challenges of the macro environment

Change in income levels

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

Political changes

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

Contemporary Legislation

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

Labour restrictions

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

Micro lending

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

Globalisation/international challenges

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

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Social values and demographics

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

Socio economic issues

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

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

VASHNIE FASHION DESIGNERS (VFD)

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

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

Suggested answers

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

2.1.6 Examples of contemporary legislation

National Credit Act

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

Consumer Protection Act

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

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Employment Equity Act

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

Broad Based Black Economic Empowerment Act

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

Basic Conditions of Employment Act

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

Labour Relations Act

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

Skills Development Act

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

Compensation for Occupational Injuries and Diseases Act/COIDA

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

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BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER TWO

ADAPTING TO BUSINESS CHALLENGES OF THE BUSINESS ENVIRONMENTS

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

ADAPTING TO CHALLENGES OF THE BUSINESS ENVIRONMENTS

Learners must be able to:

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

Terms and Definitions

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

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1 Introduction

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

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

Ways business can adapt to the challenges of the MICRO environment

CHALLENGES	RECOMMENDATION
Difficult employees	• Businesses can deal with difficult employees as by revisiting the recruitment & induction policies. • Businesses need to develop strategies to deal with different types of personalities. • Businesses must offer counselling sessions to employees with personal problems.
Lack of vision and mission	• Management must have a clear vision which is understood and communicated this to all employees. • The vision must and mission statement have to be implemented in a way that shapes the internal environment. • The vision and mission should direct the use of resources and actions of employees. • Businesses' values must be evident in their ethical standards and the way employees are treated. • Management must be able to anticipate changes in the internal environment so that they can plan goals and operations proactively.
Lack of adequate management skills	• A business manager needs to be skilled in technical aspects of their job and in dealing with employees. • Managers need good interpersonal and conflict resolution skills. • Managers must attend management and leadership causes. • Businesses may request mentors and coaches from successful businesses to train their managers.
Unions, strikes and go slows	• Managers need to deal fairly and transparently with trade unions. • They need to build relationships with union representatives so that through positive negotiations strikes can be avoided. • The business can also make use of the CCMA to help reach an agreement with the trade unions. • Employers need a labour relations strategy where a business engages positively and meaningfully with its employees before tensions rise and strikes are threatened. • Businesses must be able to manage employees in such a way that good working relationships are maintained and disputes are resolved timeously.

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3 Ways business can adapt to the challenges of the MARKET environment

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

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

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

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

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4.1 Information management

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

4.2 Strategic responses

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

4.3 Mergers, takeovers, acquisitions and alliances

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

Mergers

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

Takeovers

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

Acquisitions

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

Alliances

- These are agreements when two or more businesses work together to achieve their objectives.
- Organisations with similar interest/nature/qualities choose to work together for the mutual benefit of both organisations.
- They remain separate and merely co-operate with one another.
  NOTE: You must be able to give practical examples of mergers, takeovers, acquisitions and alliances.

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4.4 Organisational design and flexibility

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

4.5 Direct influence on the environment and social responsibility

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

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

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

4.5.2 Social responsibility

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

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

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

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Benefits of CSI projects for businesses

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

5 Lobbying, networking and power relations

5.1.1 Meaning of lobbying

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

5.1.2 Reasons why businesses lobby

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

5.1.3 Types of lobbying

Hedging against inflation

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

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Bargaining sessions between management and unions

- These sessions enable employees to negotiate with employers as a group to protect employees' rights.
- Bargaining sessions prevent labour strikes and provide critical information to people in power
- Businesses make sure that their representatives are trained/skilled to negotiate own their behalf.
- The purpose of bargaining sessions is to find a win-win situation for all parties.
- Management will try to convince the union to accept its proposal and the union will try to persuade management to accept their demands.
- The outcome of a successful bargaining session can protect the business from the negative impact of strikes caused by loos in productivity.
- Businesses need to be fair/transparent to establish trust and good communication with unions.

Influencing supervisory body/regulators

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

5.2 Networking

5.2.1 Meaning of networking

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

5.2.2 Examples of networking

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

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5.2.3 Importance/Advantages/Benefits of networking

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

5.3 Power relations

5.3.1 Meaning of power relationship

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

5.3.2 Ways businesses can form power relations

Strategic alliance/Partnership agreements

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

Persuasion of large investors

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

Company representatives' influence

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

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BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER 3

CONTEMPORARY SOCIO- ECONOMIC ISSUES

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CONTEMPORARY SOCIO-ECONOMIC ISSUES

Learners must be able to:

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

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Terms and Definitions

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

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1 CONTEMPORARY SOCIO-ECONOMIC ISSUES

Meaning and impact of contemporary socio-economic issues on businesses

1.1. Low income levels

Meaning of low Income levels

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

Impact of low income levels on businesses

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

1.2 Inflation

Meaning of Inflation

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

Impact of inflation on businesses

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

1.3 Social, cultural and demographic issues

Meaning of social, cultural and democratic issues

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

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Impact of social, cultural and democratic issues on businesses

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

1.4 Economic crime

Meaning of economic

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

Impact of economic crime on businesses

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

1.5 Ethical misconduct

Meaning of ethical misconduct

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

Types of ethical misconduct

Sexual harassment

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

Corruption

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

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Mismanagement of funds

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

Impact of ethical misconduct on businesses

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

1.6 Population growth

Meaning of population growth

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

Impact of population growth on businesses

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

1.7 Illiteracy

Meaning of illiteracy

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

Impact of illiteracy on businesses

- Business sometimes needs to employ people even though they do not have the correct skills.

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- Training of these employees can be very costly and the business suffers a financial loss.

- Employees without the correct skills can also be the cause of accidents in the workplace and this could impact on the image of the business.
- Difficult to market products to people who cannot read or write.

1.8 Lack of skills

Meaning of lack of skills

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

Impact of lack of skills on businesses

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

1.9 Unavailability of natural resources

Meaning of unavailability of resources

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

Impact of unavailability of resources on businesses

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

1.10 Inefficiency in the use of resources

Meaning of inefficiency use of resources

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

Impact of inefficiency in the use of resources on businesses

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

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1.11 Exhaustion of natural resources

Meaning of exhaustion of natural resources

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

Impact of inefficiency exhaustion of natural resources on businesses

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

1.12 Dumping

Meaning of dumping

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

Impact of dumping on businesses

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

1.13 Strikes

Meaning of strikes

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

Impact of strikes on businesses

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

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- Expense of increased salaries and wages is often passed on to the consumer, which causes inflation.
- Businesses loose income because productivity is low.

1.14 Piracy

Meaning of piracy

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

Impact of piracy on businesses

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

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

Patent

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

Trademarks

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

Copyright

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

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

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3 Meaning of industrial relations

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

3.1 Types of industrial actions

Strikes

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

Go-slows

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

Lockouts

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

4 Purpose of the Labour Relations Act

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

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5 Trade unions

5.1 Meaning of trade unions

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

5.2 Reasons for the establishment of trade unions

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

5.3 Roles of trade unions

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

5.4 Functions of trade unions

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

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BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER FOUR

BUSINESS SECTORS

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

BUSINESS SECTORS

Learners must be able to:

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

Terms and Definitions

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

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Interrelated	Two businesses, sectors or industries are connected.

1 Meaning of business Sectors

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

1.1 Meaning of the primary sector

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

1.2 Meaning of the secondary sector

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

1.3 Meaning of tertiary sector

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

2 The relationship between the primary, secondary and tertiary sector

- The primary sector depends on the secondary sector for manufactured goods such as machinery/equipment/fertilisers e.g. a farmer may require seeds from another farm
- The primary sector is dependent on the tertiary sector for its customer needs.
- The secondary sector processes the raw materials obtained from the primary sector into more useful products.
- The secondary sector depends on the primary sector for raw materials and products.

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- The secondary sector depends on other secondary industries e.g. BMW needs tyre from DUNLOP another secondary sector player
- Secondary sector needs the tertiary sector to sell their processed or manufactured goods and also for services such as banks, insurance, transport and communication
- The tertiary sector depends on the primary sector for raw materials that do not need processing by the secondary sector.
- The tertiary sector depends on the secondary sector for manufactured goods such as office machines/office furniture/stationery etc.

3 Examples of statement on business sectors.

Primary sector

Duka Mines specialises in the extraction of platinum

Secondary sector

Super Energy Enterprise produces maize meal and instant soft porridge

Tertiary sector

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

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

TENDANI FURNITURES (TF)
Tendani Furnitures sells exclusive launch suits and tables to consumers. Tendani buys his furniture from Andries Manufacturers who buys his raw material from Kobus Timbers.

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

- Identify THREE business sectors from the scenario above. Motivate your answer by quoting from the scenario.
  Use the table below as a guide to answer this question.

BUSINESS SECTOR	**MOTIVATION**
1.	
2.	
3.	

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

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BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER FIVE

BENEFITS OF THE COMPANY OVER OTHER FORMS OF OWNERSHIP

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

BENFITS OF A COMPANY OVER OTHR FORMS OF OWNERSHIP

Learners must be able to:

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

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TERMS AND DEFINITIONS

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

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

1. SOLE TRADE /SOLE PROPRIETOR

Definition

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

Characteristics of a sole trader

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

2 Advantages and disadvantages of a sole trader

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

2 PARTNERSHIP

2.1 Definition

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

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2.2 Characteristics of a partnership

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

2.3 Advantages and disadvantages of partnership

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

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3 CLOSE CORPORATION

3.1 Characteristics of a Close Corporation

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

3.2 Advantages and disadvantages of a Close Cooperation

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

4 Private Company

4.1 Definition

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

4.2 Characteristics of a private company

- Requires one or more directors and one or more shareholders.
- It needs a minimum of one shareholder and there is no limit on the number of shareholders that a private company may have.
- Register with the registrar of companies by drawing up Memorandum of Incorporation.
- The company name ends with letters (PTY) Ltd.
- A private company is not allowed to sell shares to the public.
- Investors put capital in to earn profit from shares.

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- The company has a legal personality as well as unlimited continuity.
- The auditing of financial statements is optional.
- Profits are shared in the form of dividends in proportion to the share held.
- Shareholders have a limited liability and will not lose their initial capital invested if the business goes bankrupt.
- Shareholders have limited liability and a separate legal entity.
- Raises capital by issuing shares to its shareholders.
- Profits are shared in the form of dividends in proportion to the number of shares held.

4.3 Advantages and disadvantages of a private company

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

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5 PERSONAL LIABILITY COMPANY

5.1 Definition

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

5.2 Characteristics of a personal liability company

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

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

5.3 Advantages and/or disadvantages

NOTE: The advantages of a personal liability company are the same as the private company.

The disadvantages are also the same as the private company except the directors of the personal liability company have unlimited liability

6 PUBLIC COMPANY

6.1 Definition

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

6.2 Characteristics of a public company

- A minimum of one person is required to start a public company.
- Requires three or more directors and three or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- The company name ends with letters Ltd.
- Has legal personality and therefore has unlimited continuity
- Raises capital by issuing shares to the public and borrowing capital by issuing a debenture.
- A prospectus is issued to the public to raise capital.

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- Shareholders have a limited liability
- The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.
- The company has a legal personality as well as unlimited continuity.
- A public company is required to hold an AGM (Annual General Meeting).
- Auditing of financial statements us compulsory and audited statements are available to shareholders and the public.
- Profits are shared in the form of dividends in proportion to the share held.

6.3 Advantages and/or disadvantages

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

7 State owned company

7.1 Definition

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

7.2 Characteristics of a State Owned Company

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

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7.3 Advantages and disadvantages

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

8 Differences between the private and public company

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

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9 Differences between the private and a personal liability company

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

10 Cooperatives

10.1 Definition

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

10.2 Characteristics of cooperatives

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

10.3 Advantages and/or disadvantages of cooperatives

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

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11 Benefits of establishing a company versus other forms of ownership

11.1 Legal status and liability

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

11.2 Profit sharing

- Shareholders share in the profits of the company through dividends

11.2 Ownership and management

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

11.3 Capital and cash flow

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

11.4 Life span and continuity

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

11.5 Taxation

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

12 Challenges of establishing a company versus other forms of ownership

- Directors may not have a personal interest in the business and this could prevent the business from gaining maximum growth and profits.
- Directors who do not have a personal interest in the business may not attract investors.
- There may be conflict between the owners of the company and management in control.
- The more shares there are the less profit per share.
- A company is required to submit a full report to all stakeholders each financial year.
- The limited liability aspect of the company generates more paper work in the registration process.
- The owners of the company have more liability.

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- When directors change there could be a lack of continuity in management.
- Companies have more taxation requirements and other taxes are high.
- They are required to disclose all financial information which could provide their competitors with an unfair advantage.
- Politics can get in the way and managers are appointed for the wrong reasons.
- State owned companies often deliver non-profitable services that lead to government losing money through the business.
- A company can stop existing if deregistered by the Registrar of Companies.
- A large amount of money of funds is spent on financial audits and accounting fees due to government regulations.

13 Procedure for the formation of companies

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

14 Legal requirements of the name of the company

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

15 Memorandum of incorporation/MOI

15.1 Meaning of memorandum of incorporation/MOI

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

15.2 Aspects that must be included in the memorandum of incorporation

- Incorporators
- Nature of the company

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

16 Notice of incorporation

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

17 Prospectus

17.1 Meaning of a prospectus

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

17.2 Meaning of the Initial order offer/IPO

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

17.3 Meaning of the secondary offering

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

17.4 Aspects that must be included in the prospectus

- Company overview, including the vision, mission and goals of a business
- Product or service portfolio

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- Market analysis and strategy
- Management team
- The risk and potential of the business
- Available financial and share information
- Company's assets and liabilities
- Financial position
- Profits and losses
- Cash flow
- Prospects for growth
- Pre-incorporation contracts that have been signed
- Date of registration of the prospectus
- The minimum subscription

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BUSINESS STUDIES

GRADE 11

TERM ONE

CHAPTER SIX

BUSINESS VENTURES

AVENUES OF ACQUIRING A BUSINESS

TABLE OF CONTENTS

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Meaning, advantages, disadvantages and contractual of leasing	7-9
Identifying business avenues from scenarios/case studies/statements	9

This chapter consists of 9 pages.
CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

AVENUES OF ACQUIRING A BUSINESS

Learners must be able to:

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

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Terms and Definitions

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

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1 Reason why entrepreneurs may decide to purchase an existing business

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

2 Types of avenues of acquiring businesses

2.1 Franchising

2.1.1 Meaning franchising

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

Examples of a franchise

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

2.1.2 Advantages and disadvantages of franchising

Advantages of franchising

- It allows businesses to buy a well-known brand which guarantees sales and good return.
- Purchasing a franchise is cheaper than starting a new business.
- Franchising reduces long-term financial risk.
- A business is based on a proven idea and the product and service are tried and tested.
- A franchisee can get support from the franchisor, which often includes training, advice, and marketing.
- Forms of financing that are not available to the public are often available to franchisees.

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- Purchasing a franchise could be cheaper than starting your own business.
- Businesses are able to use a recognised brand name and registered trademark, which helps with advertising and marketing.
- The systems/operations/goods and services are well established.
- There is often access to group support from other franchisees and a network of communication and legal advice.
- Established suppliers give bulk discounts as they form part of a larger group.
- The marketing and advertising costs are shared so they are often lower than for a non-franchised business.
- Management advice is often provided, so it is not necessary to be a business expert.

Disadvantages of franchising

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

2.1.3 Contractual Implication of franchising

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

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2.2 Outsourcing

2.2.1 Meaning of outsourcing

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

Examples of outsourcing

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

2.2.2 Advantages and disadvantages of outsourcing

Advantages of outsourcing

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

Disadvantages of outsourcing

- Risk of losing sensitive data and the loss of confidentiality
- Risks such as bankruptcy and financial loss cannot be controlled
- Lack of Organizational Learning and innovative capacity.
- Managing the outsource provider could be more difficult than managing employees.

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

2.2.3 Contractual implications of outsourcing

A contract will protect and regulate the rights and responsibilities of both parties involved. Some aspects that may be included in the contract are:

- An exact description of the service/product.
- Duration of the contract
- A detailed description of the duties and the responsibilities of both parties.
- Confidentiality
- Payment terms and conditions.
- Penalties for not delivering the agreed services

2.3 Leasing

2.3.1 Meaning of leasing

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

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Examples of leasing

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

2.3.2 Advantages of leasing for the lessor

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

Disadvantages of leasing

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

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2.3.3 Contractual implications of leasing

The lease agreement will indicate whether the lessee becomes the owner of the asset after the lease period for a fee or not.

The following details must be stated on the lease agreement:

- Names of the parties entering the lease agreement/contract.
- Duration/Period of the lease
- Detailed description of what is being leased.
- Conditions of renewal
- The monthly amount payable
- Any conditions such as deposits, insurance and security
- Details of how the instalment will be calculated.
- Any specific conditions for renewing the lease at the end of the contract period.
- The procedure and liability for legal costs if a dispute arises.
- The procedure if the lessor or lessee become insolvent
- Detail of insurance, maintenance and restrictive use, up-front payment and instalments.

Example of a scenario on acquiring business avenues

WISE LWAZI VENTURING

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

- Identify THREE ways of acquiring a business avenue from the scenario above. Motivate your answer by quoting from the scenario
  Use the table below as a guide to answer this question

BUSINESS AVENUE	MOTIVATION
1.	
2.	
3.	

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

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