

**GP/ BUSINESS STUDIES /GRADE 12**  
**TERM TWO /CHAPTER 6**  
**NOTES ON BUSINESS SECTORS AND THEIR ENVIRONMENTS**  
**REVISED 2020**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**

**Learners must be able to:**

- Name THREE types of business sectors: primary, secondary and tertiary.
- Identify/Name a business sector from given scenarios/statements.
- Identify business challenges from given scenarios/case studies and classify them according to the THREE business environments.
- State/Explain the extent to which a business (operating in any of the three sectors) can control the three business environments from given scenarios and case studies.

**TERMS AND DEFINITIONS**

TERM	DEFINITION
Business Sector	A business sector is a sub division/subset of the economic activities, e.g. primary, secondary and tertiary.
Primary sector	This sector deals with extraction of raw materials and natural resources.
Secondary sector	This sector processes raw materials into finished goods.
Tertiary sector	This sector renders services to other businesses/provides auxiliary services.
Business Environments	All the internal and external factors that affect the functioning of a business, e.g. micro, market and macro environments.
Micro environment	This environment is the business itself, it consists of all the elements inside the business.
Market environment	This environment exists immediately outside the business.
Macro environment	This environment exists outside the micro and the market environments.
Extent of control	The amount of influence that a business has on the business environments.

**Introduction**

Learners are supposed to select a business from each sector and describe the three environments related to these sectors and the extent to which a business can control these environments.

They are supposed to describe the three business environments related to the three business economic sectors and give an explanation of the extent to which a business can control these environments.

**Business sectors**

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

## 1 Types of business sectors

### 1.1 Primary sector

- 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.
- Examples of the primary sector industries; mining, fishing, agriculture, forestry and farming

### 1.2 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
- Examples of the secondary sector industries; manufacturing, clothing, food processing, building and construction are found in this sector.

### 1.3 Tertiary sector

- This sector renders services to the public and businesses.
- 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.

**NOTE: You must be able to name the above mentioned business sector from given scenarios/statements**

## 2 Possible business challenges, their environments and extent of control

Possible challenges	Business environment	Extent of control
<ul style="list-style-type: none"> <li>• Difficult employees/ High rate of absenteeism</li> <li>• Lack of vision and mission</li> <li>• Lack of adequate management skills</li> <li>• Unions, strikes and go-slows</li> </ul>	Micro environment	Full control
<ul style="list-style-type: none"> <li>• Competition</li> <li>• Shortages of supply</li> <li>• Demographics and psychographics</li> <li>• Socio-cultural factors</li> </ul>	Market environment	Partial/Some/Limited/Less control
<ul style="list-style-type: none"> <li>• Change in income levels</li> <li>• Contemporary legislation</li> <li>• Labour restrictions</li> <li>• Political changes</li> <li>• Interest rates</li> <li>• Socio-economic issues</li> <li>• HIV and AIDS</li> <li>• Globalisation and International challenges</li> </ul>	Macro environment	No control


**NOTE: You will only be able to do the following:**

- Quote business challenges from the scenario
- Classify these challenges according to the business environments
- The challenge must be linked to the business environments
- State the extent of control businesses have over each business environment.
- The extent of control must be linked to the business environment

## Examples of how the business sectors and their business environments can be assessed

### Example 1: Business in the primary sector

Read the scenario below and answer the questions that follow:



**DUKA MINES (DM)**

Duka Mines specialises in the extraction of platinum. Their suppliers of mining equipment have increased their prices by more than 20%. The supervisor does not have a good working relationship with his employees. DM can no longer export their products due to an increase in the exchange rate.

**You need to identify the business sector in which Duka Mines operates and motivate your answer by quoting from the scenario.**

Duka Mines is operating in the primary sector because the business specialises in the extraction of mines.

**You need to quote challenges from the above scenario, classify EACH challenge according to business environment and state the extent of control DM has over EACH business environment**

CHALLENGES	BUSINESS ENVIRONMENTS	EXTENT OF CONTROL
1 Their suppliers of mining equipment have increased their prices by more than 20%.	Market environment	Partial/Some/Limited/Less control
2 The supervisor does not have a good working relationship with his employees.	Micro environment	Full control
3 DM can no longer export their products due to an increase in the exchange rate.	Macro environment	No control



**Example 2: Business in the secondary sector**

Read the scenario below and answer the questions that follow:

**SUPER ENERGY ENTERPRISE (SEE)**

Super Energy Enterprise produces maize meal and instant soft porridge. They buy their raw material from Early Bird Maize Farm which is out of stock sometimes. SEE employees are regularly absent from work. The local government has instructed the management of SEE to register their products with the South African Bureau for Standards.

Name the business sector in which Super Energy Enterprise is operating

**SECONDARY SECTOR**


Identify THREE challenges for SEE's business and classify EACH challenge according to the business environment.

CHALLENGE	BUSINESS ENVIRONMENT
(a) SEE employees are regularly absent from work	Micro environment
(b) They buy their raw material from Early Bird Maize Farm which is out of stock sometimes.	Market environment
(c) The local government has instructed the management of SEE to register their products with the South African Bureau of Standards.	Macro environment



**Example 3: Business in the tertiary sector**

Read the scenario below and answer the questions that follow:

<p><b>TIMOTHY LEGAL SERVICES (TLS)</b></p>  <p>Timothy Legal Services (TLS) is situated at the Pretoria CBD. TLS's assistant lawyers are not trained to handle criminal cases. Another law firm, Mbuzi Inc. has set up a law practice in the same office block as TLS. TLS can no longer pay their bank loan due to an increase in interest rates.</p>
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Name the business sector in which TLS is operating. Motivate your answer by quoting from the scenario above.

**Business sector:** Tertiary sector

**Motivation:** Timothy Legal Services (TLS) is situated at the Pretoria CBD

Identify THREE challenges for TLS business and classify EACH challenge according to the business environment. State the extent of control TLS has over EACH business environment

CHALLENGE	BUSINESS ENVIRONMENT	EXTENT OF CONTROL
TLS's assistant lawyers are not trained to handle criminal cases.	Micro environment	Full control
Another law firm, Mbuzi Inc. has set up a law practice in the same office block as TLS.	Market environment	Partial/Some/Limited/Less control
TLS can no longer service their bank loan due to an increase in interest rates.	Macro environment	No control

**NOTE:** You may sometimes asked to name three business environments and explain the extent of control businesses have over EACH business environment e.g.

BUSINESS ENVIRONMENTS	EXTENT OF CONTROL
Micro environment	Full control
Market environment	Partial/Some/Limited/Less control
Macro environment	No control





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**BUSINESS STUDIES**  
**GRADE 12 TERM 2 CHAPTER 9**  
**NOTES ON INVESTMENT: SECURITIES**  
**POST COVID-19: REVISED**  
**2020**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**

**Learners must be able to:**

- Outline/Explain/Discuss the functions of the JSE.
- Outline/State/Describe/Explain/Discuss the following factors that should be considered when making investment decisions:
  - Return of investment (ROI)
  - Risk
  - Investment term/period
  - Inflation rate
  - Taxation
  - Liquidity
- Explain/Discuss the various types of investments opportunities and their risk factors:
  - Mutual funds/Stokvel
  - Managed portfolio
  - Venture capital
  - 32-day notice account
  - Debentures
  - Endowment/Retirement annuities
- Explain/Discuss/Analyse/Evaluate (positives/advantages and/or negatives /disadvantages) of the following forms of investment:
  - Government/RSA retail savings bonds
  - Unit trusts
  - Shares
  - Fixed deposit
- Identify the following types of shares from given scenarios/statement:
  - Ordinary shares
  - Preference shares
  - Bonus shares
  - Founders shares
- Name/Outline/Explain/Discuss types of preference shares.
- Outline the rights of ordinary and preference shareholders.
- Identify types of preference shares from given scenarios/statements.
- Differentiate/Distinguish between ordinary and preference shares.
- Define/Explain the meaning of debentures, dividends, capital gain, simple interest, compound interest.
- Differentiate/Distinguish between simple interest and compound interest.
- Calculate simple and compound interest from given scenarios.
- Recommend the best investment option based on the calculations.



## Terms and definitions

Term	Definition
Investment	Investing/Saving money in order to yield better returns.
JSE/Johannesburg Security Exchange	Is a formal market, trading in shares, comprising of all the public companies that have been listed.
Share	It gives investors the opportunity to obtain a part ownership of a company.
Capital Market / securities market	It is the market for securities/shares where companies and the government can raise long-term funds.
Short term investment	An investment for a period shorter than one year.
Long term investment	An investment for a period for longer than one year.
Fixed rate	The rate of return stays the same for the period of time.
Accumulated	Interest earned over the investment period.
Simple interest	Calculated on the original/principal amount invested.
Compound interest	Calculated each period on the original/principal amount including all interest accumulated during past periods.
Risk	Refers to the chance that the invested amount may reduce in value/lost in total over a period of time, due to unforeseen circumstances.

### 1 Functions of the JSE

- Gives opportunities to financial institutions such as insurance companies to invest their funds in shares.
- Serves as a barometer/indicator of economic conditions in South Africa.
- Keeps investors informed on share prices by publishing the share prices daily.
- Acts as a link between investors and public companies.
- Shares are valued and assessed by experts.
- Small investors are invited to take part in the economy of the country through the buying/selling of shares.
- Venture capital market is made available on the open market.
- Orderly market for securities serves as a disciplined market for securities.
- Encourages new investments.
- Mobilises the funds of insurance companies and other institutions.
- Raises primary capital.
- Regulates the market for dealing with shares.
- Plans, researches and advises on investment possibilities.
- Ensures that the market operates in a transparent manner.
- Provides protection for investors.
- Encourages short-term investment.
- Facilitates electronic trading of shares/STRATE.



## 2 Factors that should be considered when making investment decisions

- o Return of investment (ROI)
- o Risk
- o Investment term/period
- o Inflation rate
- o Taxation
- o Liquidity



### 2.1 Explanation of investment decisions

#### Return on investment

- Refers to income from the investment, namely interest/dividends/increased capital growth on the original amount invested.
- High risk investments yield higher returns.
- Generally, there will be a direct link between risk and return.
- The return should be expressed as net after-tax gains on the investment.
- Returns can be in the form of capital gains where the asset appreciates in value over time.

#### Risk

- Shares have low/medium risk over a longer investment period.
- Shares with higher risks have a greater potential for higher returns.
- Ordinary shares have the highest risk as the investor may lose the full/part of the investment when the company is dissolved/bankrupt/liquidated.
- Preference shareholders' risk is lower, as they have preferential claims on the assets of the liquidated company/may receive some compensation before ordinary shareholders.
- Share prices are linked to factors that investors cannot control, e.g. economic conditions/operational success of the company, etc.
- Share prices are volatile/unstable/unpredictable/may increase/ decrease sharply within hours which contribute to the uncertainty of the value of an investment in shares on the short term.

#### Investment term/period

- This refers to the duration of the investment which may influence the return on investment.
- The longer the investment period the higher the returns.
- The investment period will depend on an investor's personal needs.
- Short term investments enable investors to access their money on a short period if needed.
- The investment period can be short, medium and/or long term depending on the investors' needs.

#### Inflation rate

- People are affected by a high inflation rate, because their money/purchasing power decreases.
- The return on investment should be higher than the inflation rate.
- Inflation has a positive effect on some investments such as property/shares where the income will increase as inflation increases.





### **Taxation**

- A good investment will yield good after-tax returns.
- Income tax implications must be considered in order to ensure a high net after-tax return.
- Tax rates are not necessarily the same for different investments.

### **Liquidity**

- An amount could be invested in a type of investment that can easily be converted to cash.
- It is used to describe the ease and speed with which investors can convert an investment into cash.
- Example: an investment in a savings account/unit trust will be easier to convert into cash than an investment in a fixed deposit which is usually deposited for a fixed period of time.

## **3 Types of investments opportunities and risk factors**

### **Mutual funds/Stokvels**

- It is an informal savings scheme to which a relatively small group of people contribute.
- Each member takes a turn to draw from the scheme/fund/stokvels for their own personal gain.
- No/Small return on investment, as contributions are distributed monthly to one of the members.
- It encourages people to save each month for a specific reason.
- Banking fees are shared by the members, resulting in low cost of investment per member.
- In times when it is hard to get bank loans, stokvel pay-outs may come in handy.
- A stokvel is usually managed by a trustworthy chairman/treasurer, who will be responsible for keeping records and managing the bank account.
- Members usually discuss how the money will be invested and agree on the risks they are willing to take.

### **Risk**

- Schemers who claim to be running stokvels may actually be running illegal pyramid schemes and pay-outs may not be possible as cash has run out/members may lose their savings.
- Money in a savings account is a safe investment, but with low interest rates/the returns are low.

### **Managed portfolio**

- An investor instructs a financial institution/bank/financial advisor to manage his/her various investments/assets in one portfolio.
- If the portfolio does not perform well/as expected, the portfolio/parts thereof may be changed with/without informing the investor.

### **Risk**

- Risk is lower over a longer term/period.
- Investments are made in various sectors/companies, therefore the risk is spread and better managed by the portfolio manager.
- Money is usually invested in the capital market and unforeseen circumstances may impact negatively on the value of the portfolio on the short term/High risk over the short term.

### **Business Ventures/Venture capital**

- Venture capital is given by an investor/businesses to start up/expand a business in return to have a share in the new/expanded business.
- Investor(s) should know the type of business/market/economic conditions before a business is bought/started.
- Buying a franchise/existing businesses will be successful, if the investors has done proper research/understand exactly what he/she is investing in.

### **Risk**

- High risk for the investor(s), if research is not properly done.
- Inexperienced business owners that make wrong business decisions may experience big losses/closing down of an existing business.

### **32-day notice accounts/Call Deposits**

- Money is invested at a fixed rate, although withdrawals may be made provided the bank is given 32 days' notice of the withdrawal.
- It earns more interest than a current/cheque/savings account, but less interest than a fixed deposit.

### **Risk**

- Low risk, as investment plus interest will be paid out on the maturity date of investment.
- Interest is calculated on the daily balance, accelerating the value/return on the investment/lowering the risk.
- Interest rate may fluctuate with market conditions, increasing the risk.

### **Debentures**

- It is issued to raise borrowed capital from the public.
- The lender/debenture holder agrees to lend money to the company on certain conditions for a certain period.
- Debenture holders are creditors, as the company is liable to repay the amount of the debentures.
- Most types of debentures can be traded on the JSE.
- Debenture holders receive annual interest payments based on the terms/ amount of debentures held.

### **Risk**

- Debentures have a low risk as they need to be paid back.
- Companies are liable to repay the amount of the debenture plus interest, which decrease the risk for the investor.
- Investors may earn a steady income in the form of interest while preserving their principal amount.

### **Endowment/Life insurance policies/Retirement Annuities**

- A monthly payment is paid to an insurance company with the expectancy of receiving a pre-determined amount on a date in the future.
- To provide for a future expenses/give peace of mind to the dependants of the insured.

### **Risk**

- Low risk, as the insured amount will be paid out regardless of circumstances.
- Only the closing down/bankruptcy of the insurance company may result in losing the monthly contributions made up to the close down date.

## 4 Forms of investments

- o Government/RSA retail savings bonds
- o Unit trusts
- o Shares
- o Fixed deposit

### 4.1 Impact of FOUR forms of investments

#### 4.1.1 Impact of RSA Retail Savings Bonds/Government Retail Bonds

##### Positives/ Advantages

- Guaranteed returns, as interest rate is fixed for the whole investment period.
- Interest rates are market related and attract more investors.
- Interest can be received twice a year.
- Interest is usually higher than on fixed deposits.
- Retail bonds are listed on the capital bond markets/on the JSE.
- Low risk/Safe investment, as it is invested with the South African Government which cannot be liquidated
- No charges/costs/commissions payable on this type of investment.
- Investment may be easily accessible, as cash may be withdrawn after the first twelve months.
- It is an affordable type of investment for all levels of income earners including pensioners.
- Retail bonds are easily/conveniently obtained electronically/from any Post Office/directly from National Treasury.
- Investors younger than 18 years/Minors may invest with the help of a legal guardian, which encourages saving from a young age.

AND/OR

##### Negatives/ Disadvantages

- Retail bonds cannot be ceded to banks as security for obtaining loans.
- A minimum of R1 000 must be invested, which may be difficult for some small investors to accumulate.
- Retail bonds are not freely transferable amongst investors.
- Investors need to have valid SA identification/should be older than 18 years which may discourage foreigners/young people to invest.
- Penalties are charged for early withdrawals, if the savings is less than 12 months old.

#### 4.1.2 Impact of unit trusts

##### Positives/ Advantages

- Managed by a fund manager who buys shares on the stock exchange/JSE.
- Easy to cash in when an investor needs money.
- A small amount can be invested per month.
- Generally beats inflation on the medium/long term.
- Safe investments, as it is managed according to rules and regulations.
- The investor has a variety to choose from/a wider range of shares from lower to higher degrees of risk.
- Easy to invest in, as investors simply complete a few relevant forms or invest online.
- Fluctuations in unit trust rates of return are often not so severe because of diversity of the investment fund.
- Offer competitive returns in the form of capital growth and dividend distribution.
- Fund managers are knowledgeable/experts/reliable/trustworthy as they are required to be accredited to sell unit trusts.

**AND/ OR**

**Negatives/ Disadvantages**

- Share price may fluctuate
- Unit Trusts are not allowed to borrow, therefore reducing potential returns.
- Not good for people who want to invest for a short period
- Not good for people who want to avoid risks at all costs.
- If blue chip companies do not continue on their growth path, the growth of unit trusts will also be affected and will not render the expected returns.
- Bid/Ask prices exist with the price that you can buy a unit for usually higher than the price you can sell it for - making investment less liquid.

**4.1.3 Impact of shares/Ordinary shares**

**Positives/ Advantages**

- Can be freely transferred/traded on the JSE.
- Shareholders' liability to the debt of the company is limited to what was invested/Shareholders have limited liability for company debts
- Shareholders have voting rights at the annual general meeting (AGM).
- Investing in shares provides protection against inflation.
- Investing in shares can provide solid returns at retirement age.
- Rate of return on investment (ROI) is linked to the performance of the company.
- Ordinary shares are usually cheaper than preference shares on the open market
- Holding a higher number of shares may result in higher proportional dividend pay-outs.

**AND/OR**

**Negatives/ Disadvantages**

- Shareholders may receive less dividends/no dividends when company profits are low.
- Companies have no legal obligation to pay dividends to shareholders.
- Risk may be high, as investment may be lost when companies are liquidated.
- Dividends declared may be determined by the management/directors of the company/business.

**4.1.4 Impact of fixed deposits**

**Positives/ Advantages**

- Interest is earned at a fixed rate regardless of changes in the economic climate.
- The period of investment can be over a short/medium/long term.
- Investors can choose the investment period that suits them.
- Principal amount plus interest earned is paid out on the maturity date.
- Ensures financial discipline as investors cannot withdraw their funds before the maturity date.
- Investors earn a better return on investment than on an ordinary savings account.
- The higher the principal amount/the longer the investment period, the higher the interest rate offered by a financial institution.

**AND/OR**

**Negatives/ Disadvantages**

- The investor cannot withdraw their funds before the maturity date.
- Low returns compared to other investments.
- May not outperform the effect of inflation over long term.



## 4.2 TYPES OF SHARES

1.	3.
2.	4.

### 4.2.1 Ordinary shares

- Ordinary shares only receive dividends when profit is made.
- Normally the higher the net profit, the higher the dividend.
- Shareholders are the last to be paid, if the company is declared bankrupt liquidated.
- Dividends vary from year to year according to profits made and are determined by the company/board of directors.
- Shareholders have a right to vote at the Annual General Meeting/AGM.

### Rights of ordinary shareholders

#### Shareholders have a right to:

- vote at the Annual General Meeting.
- attend the Annual General Meeting to learn about the company's performance.
- receive interim and annual reports.
- claim on company assets in the event of bankruptcy after all other creditors and preferential shareholders have been paid

### 4.2.2 Preference shares

- Some of these types of shares receive dividends regardless of whether a profit is made.
- A fixed rate of return is paid on this type of shares.
- Shareholders have a preferred claim on company assets in the event of bankruptcy/liquidation.
- These shares enjoy preferential rights to dividends/repayment over ordinary shares.
- Dividends are payable according to the type of preference share.
- Voting rights are restricted to particular circumstances/resolutions.
- Non-cumulative preference shareholders will not receive any outstanding dividends from previous years.
- Cumulative preference shareholders will receive outstanding dividends from previous years.
- Redeemable preference shares can be redeemed/bought back at the option of the issuing company on a pre-determined future date.
- Non-redeemable preference shares are only bought back when the company closes down for reasons other than bankruptcy.
- Convertible preference shares are converted to ordinary shares after a fixed period/on the date specified when the preference shares were issued.
- Non-convertible preference shares will not be converted into ordinary shares.

### Rights of preference shareholders

#### Shareholders have right to:

- Receive dividends regardless of how much profits are made.
- Receive a fixed rate of return/dividend.
- They are paid first/enjoy preferential rights to dividends.
- They have a preferred claim on company assets in the event of bankruptcy/ liquidation of the company.
- Receive interim and annual reports.
- They only have voting rights at the AGM under particular circumstances/for certain resolutions.
- Cumulative shareholders must receive outstanding/accrued dividends from previous years.
- Participating preference shareholders have the right to share in surplus profits.

**NOTE: you must know the rights of ordinary and preference shares.**

### 4.2.3 Founders' shares

- Issued to the founders and incorporators/promoters of the company.
- They receive dividends after all other shareholders were paid.

### 4.2.4 Bonus shares

- Payment in the form of shares to shareholders.
- Issued as compensation for unpaid dividends.
- Shareholders will own more shares and collect more dividends in the future.
- Shareholders receive these shares without being required to pay for them.

NOTE: You must be able to identify the above mentioned types of shares from given scenarios/statement.

## 4.3 Types of preference shares

### Participating preference shares

#### Shareholders:

- are guaranteed minimum fixed dividends.
- are entitled to share in any surplus company profits.
- receive higher dividends when the company performs well.
- have preferential rights over ordinary shares on repayment when the company closes down.

### Non-participating preference shares/Ordinary preference shares

#### Shareholders:

- receive an amount equal to the initial investment plus accrued and unpaid dividends upon liquidation.
- do not have right to participate in profits after equity shareholders have been paid a dividend.
- will not get extra dividend in case of surplus profits.
- entitled to receive only a fixed rate of dividend every year.

### Cumulative preference shares

- Shareholders are compensated for past dividends that were not paid out when profits were too low to declare dividends/Receive dividends not previously paid out.

### Non-cumulative preference shares

- Shareholders are not compensated for past dividends that were not paid out when profits were low.

### Redeemable preference shares

- Shares can be redeemed/ bought back at the option of the issuing company, either at a fixed price on a specified date/over a certain period of time.

### Non-redeemable preference shares

- Shares are only bought back when the company closes down for reasons other than bankruptcy.

### Convertible preference shares

- Shares can be converted into a predetermined number of ordinary shares on the date specified when the preference shares were issued.

### Non-convertible preference shares

- Shares cannot be converted into ordinary shares.

NOTE: You must be able to identify the above mentioned types of preference shares from given scenarios/statements.



#### 4.4 Differences between ordinary and preference shares

ORDINARY SHARES	PREFERENCE SHARES
<ul style="list-style-type: none"> <li>Ordinary shares only receive dividends when profit is made.</li> </ul>	<ul style="list-style-type: none"> <li>Some of these types of shares receive dividends regardless of profit made.</li> </ul>
<ul style="list-style-type: none"> <li>Normally the higher the profit, the higher the dividend.</li> </ul>	<ul style="list-style-type: none"> <li>A fixed rate of return is paid on this type of shares</li> </ul>
<ul style="list-style-type: none"> <li>Shareholders are the last to be paid, if the company is declared bankrupt/liquidated.</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders have a preferred claim on company assets in the event of bankruptcy/liquidation.</li> </ul>
<ul style="list-style-type: none"> <li>Ordinary shares are standard shares with no special rights or restriction.</li> </ul>	<ul style="list-style-type: none"> <li>These shares enjoy preferential rights to dividends/repayment over ordinary shares.</li> </ul>
<ul style="list-style-type: none"> <li>Dividends vary from year to year according to profits made as determined by the company.</li> </ul>	<ul style="list-style-type: none"> <li>Dividends are payable according to the type of preference share.</li> <li>Non-cumulative preference shareholders will not receive any outstanding dividends from previous years.</li> <li>Cumulative shareholders will receive outstanding dividends from previous years.</li> </ul>
<ul style="list-style-type: none"> <li>Shareholders have a right to vote at the Annual General Meeting.</li> </ul>	<ul style="list-style-type: none"> <li>Voting rights are restricted to particular circumstances/resolutions.</li> </ul>

### 5 Investments concepts

- o Debentures
- o Dividends
- o Capital gain
- o Simple interest
- o Compound interest.

#### 5.1 Description of investment concepts

##### 5.1.1 Debentures

- It is issued to raise borrowed capital from the public.
- The lender/debenture holder agrees to lend money to the company on certain conditions for a certain period.
- Debenture holders are creditors, as the company is liable to repay the amount of the debentures.
- Most types of debentures can be traded on the JSE.
- Debenture holders receive annual interest payments based on the terms/ amount of debentures held.

##### 5.1.2 Dividends

- The return on an investment in shares which is paid regularly by a company to its shareholders.
- Dividends are decided and managed by the company's board of directors and approved by the shareholders through their voting rights.

##### 5.1.3 Capital gain

- The return on property/fixed assets/investments.
- Capital gains tax is payable when you sell an asset that has increased in value since you bought it



**5.1.4 Simple interest**

- The interest is calculated on the original/principal amount invested.
- The principal amount remains the same over the entire period of investment.
- The interest is kept separate unless it is reinvested
- Yields less return on investment.

**5.1.5 Compound interest**

- Interest is calculated in every period on original/principal amount plus interest.
- Interest is added to the original/principal amount and interest is earned on interest for each defined period.
- As interest is added to the investment, the capital increases.

**6 Distinction between compound and simple interest**

COMPOUND INTEREST	SIMPLE INTEREST
Interest earned on original amount invested, as well as interest earned in previous period(s).	Interest earned on the original amount and not on the interest accrued.
The principal amount grows with the addition of interest to it.	The principal amount remains the same over the entire period of investment.
Interest is calculated on the higher principal amount and again added to it.	The interest is kept separate unless it is reinvested.
Yields high return on investment.	Yields less return on investment.
Total amount of interest earned on investment is high.	Total amount of interest earned on investment is less.





## 7 Examples of how to calculate the simple and compound interest

Ronnete wants to invest R30 000 in a fixed deposit for two years. She approached two banks. Saints Bank offered her 12% simple interest per annum and Caprica Bank 12% compounded interest per annum.

- Calculate the interest amount Ronnete will receive after two years if she invests with Saints Bank.
- Calculate the interest amount Ronnete will receive after two years if she invests with Caprica Bank.
- Recommend the best investment option for Ronnete. Motivate your answer.

### Calculation of simple interest of the above scenario

**FORMULA:** Interest =  $P \times R \times T$

$$R30\ 000 \times 12\% \times 2 \text{ years} = R7200$$

### Calculation of Compound interest of the above scenario

#### Option 1

$$\text{Year 1: } R30\ 000 \times 12\% = R3600$$

$$\text{Year 2: } R33\ 600 \times 12\% = R4032$$

$$\text{Total interest} = R7632$$

OR

#### Option 2

$$\text{FORMULA: } P \times (1 + r)^n$$

$$R30\ 000 \times (1 + 12/100)^2$$

$$R30\ 000 \times (1.12)^2 = R37\ 632$$

$$\text{Total interest} = R37\ 632 - R30\ 000$$

$$= R7632$$

## 8 Recommendation on the best investment option based on the calculations

Compound interest is the best option based on the calculations above.

### Motivation

Compound interest yields a higher interest of R7 632 than the simple interest/ Ronnete earns interest on interest accrued.



### **RSA Retail Savings Bonds**

- To encourage saving, the SA Government offers SA citizens the opportunity to invest in saving bonds.
- Two different types of bonds are available, i.e. fixed rate/inflation linked retail savings bonds.
- A market related interest rate is determined when investment is made and remains fixed for the whole term of the investment.
- Interest is earned half-yearly on 31 March and 30 September and paid out into the bond holder's/investor's bank account.
- It cannot be used as security to obtain loans, so creditors cannot have any claim on it.
- It can be inherited by a nominated beneficiary/when the investor dies.

#### **Risk**

- Risk is very low, as an investment is made in the government who cannot disappear/go bankrupt.
- It is a safe investment, as it cannot be sold on the open market/not exposed to market risks.

### **Unit trusts**

- It is a collection of investment options/methods made up of shares in different companies.
- The investments of a number of investors are pooled together in a unit trust fund, managed by a fund/portfolio manager/expert.
- Can be bought directly from the accredited service providers.

#### **Risk**

- Investment may be made in high and low risk shares, which spread the risk throughout the fund and lowers the risk for all the investors/fund members.
- Fund managers are able to manage the risk level of the fund on behalf of the investors.

### **Fixed deposit**

- It is a very conservative method of investment at a fixed rate for a fixed period/at a financial institution/bank.
- Money cannot be withdrawn/added during the period of the deposit.
- Investors have to be certain that they will not access/need the money for the period of the deposit.

#### **Risk**

- Very low as the investor will receive what was promised.
- As the interest rate is usually fixed, the return will not be affected by market fluctuations.



## Shares

- Companies sell/issue portions of its ownership to shareholders in the form of shares on the open market to obtain capital/funds to operate its core business.
- Shares give the holder one vote per share and the right to receive a dividend (portion of the profit).
- Companies do not have to repay share capital and is therefore risk avoiding capital.
- Shares of listed companies are traded on the JSE.
- Shares can be bought/sold through stock/share brokers to whom a brokerage/fee will be paid by the investor.
- Types of shares differ with respect to the claims to profits/dividends/voting rights/claims to assets should the company be liquidated.
- Ordinary shares can be divided into different types, e.g. blue chip/bonus/growth/income/defensive shares.
- Ordinary shares have no special rights or restrictions and may yield/earn higher dividends, but also have higher risk.
- Types of preference shares are cumulative/non-cumulative/participating/non-participating/redeemable/non-redeemable/convertible/non-convertible shares.
- Preference shareholders mostly receive a fixed dividend and are paid before other shareholders.

## Risk

- Shares have low/medium risk over a long term/investment period.
- Ordinary shares have the highest risk as the investor may lose the full or part of the investment when the company is dissolved/bankrupt/liquidated.
- Preference shareholders' risk is lower, as they have preferential claims on the assets of the liquidated company/may receive some compensation before ordinary shareholders.
- Share prices are linked to factors that investors cannot control, e.g. economic conditions, operational success of the company, etc.
- Share prices are volatile/unstable/unpredictable/share values may increase/ decrease sharply within hours which contribute to the uncertainty of the value of an investment on the short term.



**GP BUSINESS STUDIES GRADE 12  
TERM 2 CHAPTER 10  
MANAGEMENT AND LEADERSHIP REVISED 2020**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**

Learners must be able to:

**MANAGEMENT AND LEADERSHIP**

- Define/Elaborate on the meaning of management and leadership
- Differentiate/Distinguish between management and leadership.

**LEADERSHIP STYLES**

- Outline the differences/Differentiate/Distinguish between the following leadership styles:
  - Democratic
  - Autocratic
  - Laissez-Faire/Free Reign
  - Charismatic
  - Transactional
- Identify the leadership styles from given scenarios/case studies and motivate answers.
- Discuss/Evaluate/Analyse the impact (including positives/advantages and/or negatives/disadvantages) of each leadership style.
- Suggest/Recommend situations in which each leadership style can be applied in the workplace.

**LEADERSHIP THEORIES**

- Discuss/Explain the following theories of management and leadership:
  - Leaders and followers
  - Situational leadership
  - Transformational leadership/Transitional leadership
- Identify the above-mentioned leadership theories from given scenarios/statements.
- Explain/Discuss the role of personal attitude in successful leadership.
- Identify the role of personal attitude in successful leadership from given scenarios/case studies.

Leadership	The ability of an individual or a group of individuals to influence and
Management	Planning, organising, leading and controlling employees to achieve
Democratic leadership style	The leader invites the team members/group to contribute ideas and participate in the decision-making process.
Autocratic leadership style	The leader takes decisions on his/her own without consulting staff.
Laissez fair/Free reign	The leader delegates tasks to followers with little or no direction
Charismatic leadership style	The leader uses charm to influence followers.
Transactional leadership style	The leader focuses on motivating followers through a system of reward and punishment.
Bureaucratic leadership style	Leaders/managers make sure employees follow rules and policies.
Leaders and followers theory	Focus on relationship between leader and follower.
Situational leadership theory	Focus on the application of different leadership styles depending on the situation and the maturity level of employees.
Transformational leadership theory	The leader identifies the change needed/creates a vision to guide the change through inspiration.
Personal attitude	The manner in which the leader relates to his/her employees determines the success or failure of a business.

## MANAGEMENT AND LEADERSHIP

### 1 Meaning of management and leadership

#### 1.1 Meaning of management

- The coordination of Planning, organising, leading and controlling employees to achieve goals.
- A person becomes a manager because of the position in which he/she is appointed
- Managers have power because of the position of authority into which they are appointed.

#### 1.2 Meaning of leadership

- The ability of an individual or a group of individuals to influence and guide followers or other members of an organization
- Leadership is an of inspiring subordinates to perform in order to achieve goals
- It cannot be taught, although it may be learned as it is an inborn trait
- Involves establishing a clear vision and sharing it with others so that they can willingly follow
- A leaders steps up in times of crisis and is able to think and act creatively in difficult situations

#### 1.3 Differences between leadership and management

LEADERSHIP	MANAGEMENT
Influences human behaviour.	Guides human behaviour.
Communicates by means of interaction/behaviour/vision/values/charisma.	Communicates through management functions, e.g. line function.
Innovates/Encourages new ideas to increase productivity.	Administers plans/programs/tasks to reach targets.
Inspires staff to trust and support each another.	Controls systems and procedures to get the job done.
Focuses on what and why.	Focuses on how and when.
Focuses on the horizon/long term.	Focuses on the bottom line/short/medium/long term.
Leaders are born with natural/ instinctive leadership skills.	A person becomes a manager because of the position in which he/she is appointed.
Guides/Leads people to become active participants.	Manages the process of getting things done by exercising responsibility.
Leaders have power/influence because of his/her knowledge/skills/ intelligence.	Managers have power because of the position of authority into which they are appointed.
Always trying to find more efficient ways of completing tasks.	Enforce rules on subordinates/Ensure that tasks are completed.
Motivational/Inspirational in their approach	Instructional in their approach.
People orientated.	Task orientated.
Lead by example/trust/respect.	Manage by planning/organising/leading/control.
Does things right	Does the right things

## 2 Leadership styles

- Democratic
- Autocratic
- Laissez-Faire/Free Reign
- Charismatic
- Transactional

NOTE: The explanation of EACH leadership style is embedded in the advantages of each style below.



## 3 Situations in which each leadership style can be applied in the workplace and the impact of each leadership style on businesses

### 3.1 Democratic leadership style

**Situations/This leadership style can be applied when:**

- Group members are skilled and eager to share their ideas.
- The leader does not have all the information needed to make a decision and employees have valuable information to contribute.
- Cooperation is needed between a leader and a team.
- Decisions need to be looked at from several perspectives
- Small dynamic companies rely on innovative and creative ideas.

**Impact of the democratic leadership style on businesses**

**Positives/Advantages**

- The leader allows the employees to participate in the decision making process, so they feel empowered/positive.
- Staff gives a variety of ideas/inputs/feedback/viewpoints that can lead to innovation/improved production methods/increased sales.
- Clear/Two way communication ensures group commitment to final decision(s).
- Authority is delegated which can motivate/inspire workers to be more productive.
- Complex decisions can be made with inputs from specialists/skilled workers.

**AND/OR**

**Negatives/Disadvantages**

- Incorrect decisions may be made if staff is inexperienced/not fully informed.
- Decision making may be time consuming because stakeholders have to be consulted.
- Employees may feel discouraged if their opinions/inputs are not considered.
- Leaders can rely too much on the input of the followers and fail to make a final decision.
- Not effective in times of crisis/when quick decisions need to be made.
- Some employees only pretend to participate in decision making and their feedback may not always be accurate.



### 3.2 Autocratic leadership style

#### Situations/This leadership style can be applied when:

- there is a crisis in the workplace, e.g. in the case of unforeseen challenges/accidents.
- there are emergencies, where there is a shortage of time.
- employees are motivated and the leader has already earned the trust of the followers.
- dealing with employees who are not cooperative.
- employees are new/not fully trained.
- the leader has all the information available to solve the problem

#### Impact of the autocratic leadership style on businesses

##### Positives/Advantages

- Quick decisions can be taken without consulting/considering followers/ employees.
- Work gets done in time/on schedule.
- Line of command/communication is clear as it is top-down/followers know exactly what to do.
- Direct supervision and strict control ensure high quality products/service.
- Provides strong leadership which makes new employees feel confident and safe.
- Works well in large companies where consultation with every employee is impractical.
- Clear guidance can be given to low-skilled/inexperienced/new staff.

#### AND/OR

##### Negatives/Disadvantages

- Leaders and followers may become divided and may not agree on ways to solve problems.
- Workers can become demotivated if their opinions/ideas are not considered.
- De-motivated workers impact negatively on productivity.
- New/Creative/Cost reducing ideas may not be used/implemented/never be considered.
- Followers may feel that they are not valued resulting in high absenteeism/high employee turnover.
- Experienced/Highly skilled workers will resist an autocratic leadership style because it results in slow growth/low participation/less creativity.

#### Differences between the democratic and autocratic leadership styles

DEMOCRATIC	AUTOCRATIC
<ul style="list-style-type: none"> <li>• The leader involves employees in the decision making process.</li> </ul>	<ul style="list-style-type: none"> <li>• A leader takes all decisions alone without involving employees.</li> </ul>
<ul style="list-style-type: none"> <li>• Clear/Two way communication ensures group commitment to final decision(s).</li> </ul>	<ul style="list-style-type: none"> <li>• Line of command/communication is clear as it is top-down/followers know exactly what to do.</li> </ul>
<ul style="list-style-type: none"> <li>• People-oriented, as employee's feelings and opinions are considered.</li> </ul>	<ul style="list-style-type: none"> <li>• Task-orientated as the opinions of employees are not considered.</li> </ul>
<ul style="list-style-type: none"> <li>• Workers feel empowered as they are involved in the decision-making process.</li> </ul>	<ul style="list-style-type: none"> <li>• New employees feel confident/safe as strong leadership is provided.</li> </ul>
<ul style="list-style-type: none"> <li>• Useful when the leader depends on the inputs of experienced followers.</li> </ul>	<ul style="list-style-type: none"> <li>• Useful in a crisis/urgent situation, e.g. after an accident/meeting tight deadlines.</li> </ul>
<ul style="list-style-type: none"> <li>• Handles conflict situations by involving followers in finding the best solution.</li> </ul>	<ul style="list-style-type: none"> <li>• Handles conflict situations by telling followers what they should do.</li> </ul>

### 3.3 Laissez-faire/ Free reign

**Situations/This leadership style can be used when:**

- Subordinates are experts and know what they want/can take responsibility for their actions.
- The leader is very busy and delegation of tasks will increase productivity.
- Team members need to improve/develop leadership skills.
- Suitable when employees are highly experienced and know more about the task than the leader.

**Impact of the Laissez-Faire leadership style on businesses**

**Positives/ Advantages**

- Workers/Followers are allowed to make decisions on their own work/ methods.
- Subordinates have maximum freedom and can work independently.
- Leader motivates workers by trusting them to do things themselves/on their own.
- Authority is delegated, which can be motivating/empowering to competent workers/increase productivity.
- Subordinates are experts and know what they want/can take responsibility for their actions.
- Suitable for coaching/mentoring to motivate employees to achieve more/better things.
- It can be empowering for competent followers as they are completely trusted to do their job.
- Individual team members may improve/develop leadership skills.

**AND/OR**

**Negatives/ Disadvantages**

- Lack of clear direction/leadership may be demotivating to employees.
- Employees can be held responsible for their own work which may lead to underperformance.
- Could lead to conflict when some team members act as leaders and dictate to other team members.
- Workers are expected to solve their own conflict situations.
- Productivity may be compromised with a lack of tight control over workers not meeting deadlines.
- Productivity might be low, if employees lack the necessary knowledge or skills.

### 3.4 Charismatic leadership style

**Situations/This leadership style can be used to:**

- Sell vision and achieve excellent results.
- Employees are motivated as the leader is energetic/ inspiring.
- Inspire loyalty/hard work among employees.

**Impact of charismatic leadership styles on businesses**

**Positives/Advantages**

- Expert at selling the business vision and achieve excellent results.
- Employees are motivated as the leader is energetic/ inspiring.
- Inspires loyalty/hard work among employees.

**AND/OR**

**Negatives/Disadvantages**

- Leader believes more in him/her than the team.
- Projects can collapse if the leader leaves the team.
- Leaders are intolerant of challenges and regard themselves as irreplaceable.
- Leader's emotions may often be more important than the purpose of the team.





### 3.5 Transactional leadership style

**Situations/This leadership style can be applied when:**

- The business wants to maximise employee performance.
- Deadlines have to be met on short notice/under pressure.
- Workers have a low morale.
- The strategies/business structures are clear and do not have to change.
- Productivity levels are very low/not according to targets.

**Impact of the transactional leadership style on businesses**

**Positives/Advantages**

- Encourages employees to work hard because they will receive rewards.
- Improves employees' productivity and morale.
- The goals and objectives of the business can be achieved as employees are motivated.
- Employees know what are expected of them.
- Disciplinary action procedures are well communicated.

**AND/OR**

**Negatives/Disadvantages**

- Employees may become bored/lose creativity as they have to follow rules/ procedures.
- A transactional leader will have to monitor the work performance of employees to ensure that expectations are met.
- Managing/controlling employees may be time-consuming.
- Some employees may be demoralised/ unmotivated if they fail to reach/meet targets despite having worked very hard.
- Not suitable for team work as all team members can be punished for poor performance caused by one team member.

**NOTE: You must be able to identify the above mentioned leadership styles from given scenarios/case studies**

## 4 Leadership theories

- Situational leadership
- Leaders and followers
- Transitional leadership/Transformational leadership

### 4.1 Situational leadership theory

- Different leadership characteristics are needed for different situations.
- The task/situation dictates the leadership style that should be applied, so leaders are adaptable/flexible/self-assured.
- Effective application of this theory may enable leaders to accomplish their goals.
- Relationships between leaders and employees are based on mutual trust/respect/loyalty/integrity/honesty.
- Leaders have the ability to analyse the situation/get the most suitable people in the right positions to complete tasks successfully.
- Leaders analyse group members/objectives/time constraints, to adopt a suitable/relevant leadership style.
- The success of this theory depends on the kind of relationship that exists between the leader and followers/subordinates/employees.
- May lead to conflict when leaders use different leadership styles/when managing employees in different situations.

## 4.2 Transformational theory

- Suitable for a dynamic environment, where change could be drastic.
- The passion/vision/personality of leaders inspire followers to change their expectations/perceptions/motivation to work towards a common goal.
- Strategic thinking leaders develop a long term vision for the organisation and sell it to subordinates/employees.
- Leaders have the trust/respect/admiration of their followers/subordinates.
- Promotes intellectual stimulation/creative thinking/problem solving which result in the growth/development/success of the business.
- Followers are coached/led/mentored/emotionally supported through transformation/change so that they can share their ideas freely.
- Encourages followers to explore/try new things/opportunities.
- Leaders lead by example and make workers interested in their work.
- Leaders have strong, charismatic personalities and are very good at motivating staff to achieve results.
- Enable employees to take greater ownership for their work and to know their strengths and weaknesses.

**NOTE: The transitional theory has been left on purpose as it is covered by the transformational theory, as both speak to change.**

## 4.3 Leaders and followers

- Teams achieve great results when there is a sense of understanding between the leader and the team of followers.
- Followers listen to what is expected of them and are willing to work as a team.
- Followers easily accept responsibility when something doesn't work out.
- Leaders lead by example and reward positive behaviour.
- Leaders motivate employees to devise alternative strategies to find more efficient ways to use available resources.
- Followers might just trail along depending on leaders and other followers to pull them through the task.

## 5 The role of personal attitude in successful leadership

- Positive attitude releases leadership potential.
- A leader's good/bad attitude can influence the success/failure of the business.
- Leaders must know their strengths and weaknesses to apply their leadership styles effectively.
- Great leaders understand that the right attitude will set the right atmosphere.
- Leaders' attitude may influence employees'/teams' thoughts/behaviour.
- Leaders should model the behaviour that they want to see in team members.
- Successful leaders consider the abilities/skills of team members to allocate tasks/roles effectively.
- Enthusiasm produces confidence in a leader.
- A positive attitude is critical for good leadership because good leaders will stay with the task regardless of difficulties/challenges.
- Successful employees and leaders have a constant desire to work and achieve personal/professional success.
- Leaders with a positive attitude know that there is always more to learn/space to grow.

**NOTE: You must be able to identify the role of personal attitude in successful leadership from given scenarios/case studies.**

**GP**  
**BUSINESS STUDIES GRADE 12**  
**TERM 2 CHAPTER 10**



**NOTES ON INVESTMENT: INSURANCE**  
**POST COVID-19: REVISED**  
**2020**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**

Learners must be able to:

- **Define/Elaborate on the meaning of insurance**

**NON-COMPULSORY INSURANCE**



- Explain/Elaborate on the meaning of non-compulsory insurance
- Explain/Elaborate on the meaning of the following insurance concepts:
  - Over-insurance
  - Under-insurance
  - Average clause
  - Reinstatement
  - Excess
- Explain the differences between over and under insurance
- Differentiate/Distinguish between insurance and assurance. Give examples.
- Name/Give examples of short term and long term insurance.
- Name/Mention/Explain/ Discuss the following principles of insurance:
  - Indemnification/Indemnity
  - Security/Certainty
  - Utmost good faith
  - Insurable interest
- Identify the above-mentioned principles of insurance from given scenarios/statements
- Apply the average clause to calculate the compensation in the case of under-insurance.
- Discuss/Explain the advantages/importance of insurance.
- Explain the meaning of insurable and non-insurable risks.
- Outline/Mention/Give examples of insurable and non-insurable risks

**COMPULSORY INSURANCE**

- Explain/Elaborate on the meaning of compulsory insurance.
- Explain/Differentiate/Distinguish between compulsory and non- compulsory insurance and give examples.
- Discuss/Explain types of compulsory insurance e.g. Unemployment Insurance Fund (UIF), Road Accident Fund (RAF)/Road Accident Benefit Scheme (RABS)/ Compensation for Occupational Injuries and Diseases Fund (COIDA).
- Explain the types of benefits paid out by the UIF
- Identify types of compulsory insurance from given scenarios/statements.
- Keep abreast of the changes in legislation from time to time e.g. the RAF is currently changing to the RABS (Road Accident Beneficiary Scheme).



**TERMS AND DEFINITIONS**

Term	Definition
Insurance 	It is a contract between a person/business/insured requiring insurance cover and the insurance company/insurer bearing the financial risk.
Insurance contract	An agreement whereby the insurer undertakes to indemnify the insured in the event of a specified loss in exchange for a premium.
Insurer	An insurance company that will take over specified risks
Insured	Individual/Business that takes out insurance coverage.
Indemnify	To compensate, protect or re-pay the insured in the event of a loss or damage.
Insured value	The amount of money agreed to by the insured and insurer to insure assets/life of a person when the contract is signed.
Book value	The purchase price of an asset , less depreciation
Risk	Possibility of losses/damages
Premium	The payment made by insured to be covered in the event of losses/damages.
Life insurance	It is a long term insurance and is taken out on the life of a human being and cover for the loss of life.
Public liability	Damage caused by business operations to the public
Insurable interest	Is expressed in financial terms and is the interest that the insured stand to lose if there are losses or damages.
Unemployment Insurance Fund (UIF)	This fund provides benefits to workers who have been working and are now unemployed for reasons such as retrenchment.
Road Accident Fund (RAF) Road Accident Benefit Scheme (RABS)	This fund pays compensation when a person is disabled/injured in a road accident and to dependents of the individual if killed in a road accident.
Compensation for Occupational Injuries and Diseases (COIDA)	This fund compensates workers financially for disability that may arise as a result of accidents while performing duties in the workplace. 

## 1 Meaning of insurance

- Insurance refers to cover for a possible event that may cause a specified loss/ damage.
- An agreement whereby the insurer undertakes to indemnify the insured in the event of a specified loss/damage.
- The insured has to pay a premium for specified losses/damages covered.
- A contract between a person/business/insured requiring insurance cover and the insurance company/insurer bearing the financial risk.

## 2 NON-COMPULSORY INSURANCE

### 2.1 The meaning of non-compulsory insurance

- Non-compulsory insurance is voluntary/the insured has a choice whether to enter into an insurance contract.
- It is not required by law, but it can provide protection for businesses and individuals.
- It is taken out in order to transfer the risk of something happening onto the insurance company.
- These risks include theft, damaged cars, damaged buildings/ premises/injuries on premises etc.
- Non-compulsory can be divided into:
  - o Short-term insurance e.g. fire, theft etc.
  - o Long-term insurance e.g. retirement/death etc.

### 2.2 Meaning of insurance concepts

#### 2.2.1 Over insurance

- Over insurance is when the item is insured for more than the actual/market value.
- The insured will not receive a pay-out larger than the value of the loss at market value.
- This means that the extra money paid for the premiums will not be paid out to the insurer if there is a claim for a loss.

#### 2.2.2 Under-insurance

- Occurs when property or assets are **NOT** insured for their full market value.
- The property/asset is insured for less than the current/actual value of the property/assets
- If a business is insured for an amount that is under the actual market value of goods or service, the insured/business will only be paid out for the amount that the goods/assets are insured for.
- The insurer usually applies the average clause to calculate the amount of money that must be compensated to the insured if the goods/assets are under insured.

#### 2.2.3 Average clause

- A stipulation set by the insurer which is applicable when property/goods is under insured/insured for less than its market value.
- The insurer will pay for insured loss/damages in proportion to the insured value.
- This means that the insured is responsible for a part of the risk that is not insured.

**NOTE: The average clause applies when goods/assets are under insured.**



**Formula for calculating the average clause**

- The insured amount is divided by the market value of the insured item and multiplied by the total value/amount of the damages/loss.
- Insurance companies apply the following formula to determine the amount to be paid out to the insured:

**FORMULA:**  $(\text{Amount insured} \div \text{Market value}) \times \text{damages}$

$$\frac{\text{Amount insured}}{\text{Value of insured item}} \times \text{Amount of damages/loss}$$

**Example of calculating the average clause**

Peter owns a thatched house valued at R100000. He insured his house with Pro-Cover Insurers for R800000. A fire in the kitchen caused damages of R30000.

- 1 Calculate the amount that Pro-Cover Insurers will pay Peter to cover damages. Show ALL calculations.
- 2 Explain to Peter the reason why he did not qualify for the full amount of damages sustained.

$$\frac{R800000}{R1000000} \times R30000 = R24000$$

**Reasons for not qualifying for the full amount of damages**

- Peter insured his house for less (R800 000) than the market value (R1 000 000).
- He was underinsured so the average clause had to be activated.
- He will only receive R24 000 for damages, and not the full amount of the claim (R30 000).

**2.2.4 Reinstatement**

- It is a stipulation whereby the insurer may replace lost/damaged property/goods instead of reimbursing the insured.
- This stipulation is applicable when property/goods are over insured.
- The re-insatement value will not be higher than the market value of the loss.
- Insured is returned to almost the same financial position as before the loss occurred.

**Example:** A business property that has been insured for R300 000 but the market value for the property is R200 000. If it is destroyed by fire/storm etc, the insurer will rebuild the property instead of paying cash.

- NOTE: 1 Reinstatement applies when goods/assets are over-insured.**  
**2 There is no formula for calculating over insurance. Therefore you will not be asked to calculate over insurance.**

**Excess**

- A clause which states that the insured is responsible for a fixed amount of the claim, when submitting a claim. (Source: Mind the gap)
- An amount that must be paid by the insured before he/she can claim from the insurance company. (Platinum)
- An insurance contract will specify what amount or percentage of the claim you have to pay and this is known as the excess amount.

### 3 Differences between over and under-insurance

OVER-INSURANCE	UNDER-INSURANCE
Property/Assets that are insured for more than their actual/market value.	Property/Assets that are not insured for their full market value.
The insurer can choose to reinstate the insured instead of making a payment.	The insurer will apply the average clause to determine the amount that will be paid.
The insured will not receive a pay-out larger than the value of the loss at market value	The insured will only be paid out for the amount that the goods/assets are insured for.

### 4 Differences between insurance and assurance

INSURANCE	ASSURANCE
Based on the principle of indemnity	Based on the principle of security/certainty
The insured transfers the cost of potential loss to the insurer at a premium	The insurer undertakes to pay an agreed sum of money after a certain period has expired/on the death of the insured person, whichever occurred first
It covers a specified event that may occur	Specified event is certainty, but the time of the event is uncertain
Applicable to short term insurance	Applicable to long term insurance
Examples	Examples
Property insurance/money in transit/theft/burglary/fire	Life insurance/endowment policies/retirement annuities,

**NOTE: Both insurance and assurance form part of non-compulsory insurance**

### 5 Examples of short term and long term insurance

SHORT TERM INSURANCE	LONG TERM INSURANCE
<ul style="list-style-type: none"> <li>● Property insurance</li> <li>● Money in transit</li> <li>● Theft</li> <li>● Burglary</li> <li>● Fire</li> </ul>	<ul style="list-style-type: none"> <li>● Endowment policy</li> <li>● Life cover policy/Life insurance</li> <li>● Retirement annuity/Pension fund/Provident fund</li> <li>● Disability policy</li> <li>● Trauma insurance</li> <li>● Funeral insurance</li> <li>● Health insurance/Medical aid</li> </ul>



## 6 Principles of insurance

### 6.1 Indemnification/Indemnity

- Usually applies to short term insurance, as the insured is compensated for specified/proven harm/loss.
- Insurer agrees to compensate the insured for damages/losses specified in the insurance contract, in return for premiums paid by the insured to the insurer.
- Protects the insured against the specified event that may occur.
- Pay-outs from the insurer will only be made; if the insured can prove the amount of loss/damage/if there is proof that the specified event took place.
- The amount of compensation is limited to the amount of provable loss/damage, even if the amount in the policy/insurance contract is higher.
- The insured must be placed in the same position as before the occurrence of the loss/damage/The insured may not profit from insurance.

### 6.2 Security/Certainty

- Applies to long-term insurance where the insurer undertakes to pay out an agreed upon amount in the event of loss of life.
- A predetermined amount will be paid out when the insured reaches a pre-determined age/or gets injured due to a predetermined event.
- Aims to provide financial security to the insured at retirement/the dependents of the deceased.

### 6.3 Utmost good faith

- Insured has to be honest in supplying details when entering in an insurance contract.
- Both parties/insurer and insured must disclose all relevant facts.
- Insured must disclose everything that may affect the extent of the risk.
- Details/Information supplied when claiming should be accurate/true.

### 6.4 Insurable interest

- Insured must prove that he/she will suffer a financial loss if the insured object is damaged/lost/ceases to exist.
- An insurable interest must be expressed in financial terms.
- Insured must have a legal relationship with the insured object in the contract.

**NOTE: The principles of insurance form the basis of an insurance contract between the insurer and the insured.**

## 7 Advantages/Importance of insurance for businesses

- Transfers the risk from the business/insured to an insurance company/insurer.
- Transfer of risk is subject to the terms and conditions of the insurance contract.
- Protects the business against theft/loss of stock and/or damages caused by natural disasters such as floods, storm damage, etc.
- Businesses will be compensated for insurable losses, such as destruction of property through fire.
- Businesses assets such as vehicles/equipment/buildings need to be insured against damage and/or theft.
- Businesses are protected against the loss of earnings, such as strikes by employees which result in losses worth millions.
- Protects businesses against dishonest employees.
- Life insurance can be taken on the life of partners in a partnership to prevent unexpected loss of capital.
- Should the services of key personnel be lost due to accidents/death, the proceeds of an insurance policy can be paid out to the business/beneficiaries.
- Replacement costs for damaged machinery/equipment are very high, therefore insurance can reduce/cover such costs.
- Protects businesses from claims made by members of the public for damages that the business is responsible for.
- Protects businesses against losses due to death of a debtor.



## 8 Meaning of insurable and non-insurable risks

### 8.1 Meaning of insurable risks

- These risks are insured by insurance companies.
- Insurance companies decide on the likelihood of an event and then decide if they want to insure the risk

### 8.2 Meaning of non-insurable risks

- These risks are not insured by insurance companies as insurance cost/risks are too high/remains the responsibility of the business.
- The insurance company cannot calculate the profitability of the risk and therefore they cannot work out a premium that the business must pay.

### 8.3 Examples of insurable and non-insurable risks

INSURABLE RISKS	NON-INSURABLE RISKS
<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Theft</li> <li>• Fidelity insurance</li> <li>• Burglary</li> <li>• Money in transit</li> <li>• Fire</li> <li>• Natural disaster/Storms/Wind/Rain/Hail</li> <li>• Damage to/Loss of assets/vehicles/equipment/buildings/premises</li> <li>• Injuries on premises</li> </ul>	<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Nuclear weapons/war/political disturbance</li> <li>• Changes in fashion</li> <li>• Improvement/changes in technology</li> <li>• Irrecoverable debts</li> <li>• Financial loss due to bad management</li> <li>• Possible failure of a business</li> <li>• Shoplifting during business hours</li> <li>• Loss of income if stock is not received in time/Time that elapses between the ordering and delivery of goods.</li> <li>• Losses caused by the marketing malpractices of the business</li> <li>• Changes in price levels in one place to the other/different prices in different places.</li> </ul>



## 9 Compulsory insurance

### 9.1 Meaning of compulsory insurance

- Compulsory insurance is insurance that is required by law before /businesses/individuals may engage in certain activities.
- Compulsory insurance is intended to safeguard the welfare of everyone concerned.
- It is regulated by Government and does not require insurance contracts/brokers.
- Payment is in the form of a levy/contribution paid into a common fund from which benefits may be claimed under certain conditions

### 9.2 Types of compulsory insurance

- Unemployment Insurance Fund (UIF)
- Road Accident Fund (RAF)/Road Accident Benefit Scheme (RABS)
- Compensation Fund/Compensation for Occupational Injuries and Diseases/COIDA

**NOTE: Do not confuse the examples of compulsory insurance with the examples of long term insurance.**

#### 9.2.1 Unemployment Insurance Fund (UIF)

- The UIF provides benefits to workers who have been working and become unemployed for various reasons.
- Employees contribute 1% of their basic wage to UIF.
- Businesses contribute 1% of basic wages towards UIF, therefore reducing the expense of providing UIF benefits themselves.
- The contribution of businesses towards UIF increases the amount paid out to employees that become unemployed.
- All employees who work at least 24 hours per month are required to be registered for UIF/contribute to the UIF.
- It is an affordable contribution that makes it possible for businesses to appoint substitute workers in some instances.
- The business cannot be held responsible for unemployment cover as the UIF pays out to contributors directly/dependants of deceased contributors.
- Businesses are compelled to register their employees with the fund and to pay contributions to the fund.

**NOTE: You will be not be awarded marks writing “workman’s compensation fund” instead of UIF.**

### Benefits of UIF

#### Unemployment benefits

- Employees, who become unemployed/retrenched due to restructuring/an expired contract, may claim within six months after becoming unemployed.
- Unemployed employees may only claim, if they contributed to UIF.
- Unemployed employees enjoy these benefits until the allocated funds are exhausted.
- If a worker voluntarily terminates his/her contract, he/she may not claim.
- No tax is payable on unemployment benefits.

#### Illness benefits/ Sickness/ Disability

- Employees may receive these benefits if they are unable to work for more than 14 days without receiving a salary/part of the salary.
- Employees may not claim these benefits if they refuse medical treatment.

### **Maternity benefits**

- Pregnant employees receive these benefits for up to 4 consecutive months.
- If an employee had a miscarriage, she can claim for up to six weeks/42 days.

### **Adoption benefits**

- Employees may receive these benefits if they adopt a child younger than two years.
- Employees who take unpaid leave/may receive part of their salary while caring for the child at home.
- Only one parent/partner may claim.

### **Dependants' benefits**

- Dependants may apply for these benefits if the breadwinner, who has contributed to UIF dies.
- The spouse of the deceased may claim, whether he/she is employed or not.

### **Paternity benefits**

### **Parental benefits**

### **Covid-19 temporary employer-employee-relief-scheme/TERS**

**NOTE: Do not confuse the benefits of UIF with types of leaves**

## **9.2.2 Road Accident Fund (RAF)/Road Accident Benefit Scheme (RABS)**

- RAF/RABS insures road-users against the negligence of other road users.
- The RAF/RABS provides compulsory cover for all road users in South Africa, which include South African businesses.
- Drivers of business vehicles are indemnified against claims by persons injured in vehicle accidents.
- RAF/RABS is funded by a levy on the sale of fuel/diesel/petrol.
- The amount that can be claimed for loss of income is limited by legislation.
- The next of kin of workers/ breadwinners who are injured/killed in road accidents, may claim directly from RAF/RABS.
- Injured parties and negligent drivers are both covered by RAF/RABS.
- The injured party will be compensated, irrespective of whether the negligent driver is rich/poor/insured/uninsured.
- RABS aims to provide a benefit scheme that is reasonable/equitable/affordable/sustainable, etc.
- RABS aims to simplify/speed up the claims process as victims of road accidents no longer have to prove who caused the accident.
- RABS enables road accident victims speedy access to medical care as delays due to the investigation into accidents has been minimised.

**NOTE: You will not be awarded a mark if you write the word “third party” instead of RAF.**



### 9.1.3 Compensation Fund/Compensation for Occupational Injuries and Diseases/COIDA

- The fund covers occupational diseases and workplace injuries.
- Compensates employees for injuries and diseases incurred at work.
- Compensation paid is determined by the degree of disablement.
- The contribution payable is reviewed every few years according to the risk associated with that type of work.
- All employers are obliged to register with the compensation fund so that employees may be compensated for accidents and diseases sustained in the workplace.
- The fund covers employers for any legal claim that workers may bring against them
- Employers are required to report all accidents within 7 days and occupational diseases within 14 days to the Compensation Commissioner.
- Employees do not have to contribute towards this fund.
- Employers are responsible for contributing towards the fund and may not claim money back from employees/deduct contributions from wages.
- In the event of the death of an employee as a result of a work related accident/ disease, his/her dependant(s) will receive financial support.
- Employees receive medical assistance provided there is no other party/medical fund involved.

## 10 Differences between compulsory and non-compulsory insurance

Compulsory insurance	Non-compulsory insurance
Required by Law/there are legal obligations for it to be taken out and paid for.	Is voluntary/the insured has a choice whether to enter into an insurance contract.
It is regulated by Government and does not require insurance contracts/brokers	Insured will enter into a legal insurance contract with the insurer, who may be represented by an insurance broker.
Payment is in the form of a levy/contribution paid into a common fund from which benefits may be claimed under certain conditions.	Monthly/Annual payments/premiums that must be paid in order to enjoy cover for a nominated risk.
<b>Examples</b> UIF, RAF and Compensation Fund/COIDA	<b>Examples</b> Short term insurance/Multi-peril insurance (theft, fire, etc.) Long term insurance/Life insurance



GP BUSINESS STUDIES GRADE 12  
TERM TWO CHAPTER 11  
TEAM PERFORMANCE & CONFLICT MANAGEMENT  
POST COVID-19: REVISED  
2020

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES  
Learners must be able to:

**TEAM PERFORMANCE ASSESSMENT**

- Outline/Explain/Discuss the criteria for successful team performance:
  - Interpersonal attitudes and behaviours
  - Shared values
  - Communication
  - Collaboration.
- Identify the above-mentioned criteria from given scenarios/statements.
- Outline/Explain/Discuss the characteristics of successful team performance.
- Identify/Name the following stages of team development from given scenarios/statements:
  - Forming
  - Storming
  - Norming
  - Performing
  - Adjourning/Mourning
- Explain/Describe/Discuss the above-mentioned stages of team development.
- Describe/Explain/Discuss/Elaborate on the importance of team dynamic theories in improving team performance e.g. allocating tasks according to the roles of team members.

**CONFLICT RESOLUTION**

- Outline/Explain/Describe/Discuss causes of conflict in the workplace.
- Identify causes of conflict from given scenarios/statements
- Explain/Advise businesses on how they should handle conflict in the workplace (Conflict resolution steps/techniques)

**DEALING WITH GRIEVANCES AND DIFFICULT PEOPLE/PERSONALITIES**

- Differentiate between grievance and conflict.
- Explain/Discuss the correct procedures to deal with grievances in the workplace.
- Identify/Name the following difficult people/ personalities from given scenarios/statements:
  - Complainer
  - Indecisive
  - Over-agree
  - Negativity
  - Expert
  - Quiet
  - Aggressive
- Suggest/Recommend ways in which businesses can deal with the above mentioned difficult people/personalities in the workplace.
- Explain/Suggest ways in which businesses can deal with difficult employees in the workplace.

**TERMS AND DEFINITIONS**

TERMS	DEFINITION
Team	Group of people who work together to achieve a common goal.
Conflict	A disagreement/a clash of opinions in the workplace.
Task/Work	Activity/function performed by an individual or team members.
Teamwork	Interactions with team members to achieve a common goal.
Team dynamics	A way in which team members work together in a group.
Forming	Team members get to know each other and accept their roles in the team.
Storming	Team members confront each other with their different ideas.
Norming	Team members accept each other and set common goals and values for the team.
Performance	An accomplished task measured against pre-set known standards.
Adjourning	Team members have to leave a team after completion of the tasks.
Team dynamic theories	Assist to allocate tasks according to the roles of individual members.
Grievance	A formal complaint laid by an employee when he/she feels that he/she has been ill-treated by the employer.
Co-operation/ Collaboration	Willingness to co-operate in the team to achieve objectives.
Mutual	Two people share the same feeling
Commitment	Keeping to a promise/arrangement/cause
Accountability	When someone is held responsible for his/her actions
Interpersonal attitudes	The personality that a person continuously develops
Interpersonal behavior	How two or more people interact with one another
Shared values	A group of people with the same set of standards and beliefs.
Assess	Check how well something has been done



## TEAM PERFORMANCE ASSESSMENT

### 1 Criteria for successful team performance

#### 1.1 Interpersonal attitudes and behaviour

- Members have a positive attitude of support and motivation towards each other.
- Good/Sound interpersonal relationships will ensure job satisfaction/increase productivity of the team.
- Members are committed/passionate towards achieving a common goal/ objectives.
- A team leader acknowledges/gives credit to members for positive contributions.

#### 1.2 Shared values/ Mutual trust and support

- Shows loyalty/respect/trust towards team members despite differences.
- Shows respect for the knowledge/skills of other members.
- Perform team tasks with integrity/pursuing responsibility/meeting team deadlines with necessary commitment to team goals.

#### 1.3 Communication

- A clear set of processes/procedures for team work ensures that every team member understands his/her role.
- Efficient/Good communication between team members may result in quick decisions.
- Quality feedback improves the morale of the team.
- Open/Honest discussions lead to effective solutions of problems.
- Continuous review of team progress ensures that team members can rectify mistakes/act pro-actively to ensure that goals/targets are reached.

#### 1.4 Co-operation/ Collaboration

- Clearly defined realistic goals are set, so that all members know exactly what is to be accomplished.
- All members take part in decision making
- Willingness to co-operate as a unit to achieve team objectives.
- Co-operate with management to achieve team/business objectives.
- Agree on methods/ways to get the job done effectively without wasting time on conflict resolution.
- A balanced composition of skills/knowledge/experience/expertise ensures that teams achieve their objectives.

**NOTE: You must be able to identify the above mentioned criteria for successful team performance from given statements/scenarios**

### 2 Characteristics of successful team performance

- Successful teams share a common goal as team members are part of the process of setting goals for the group.
- There is a climate of respect/trust and honesty
- Share a set of team values and implement group decisions.
- Successful teams have sound intra-team relations
- Teams value the contributions of individual members and reach consensus on differences.
- Team members enjoy open communication and deal with items of conflict immediately.
- Teams are accountable and members know the time frame for achieving their goals.
- Teams pay attention to the needs of the individual team members.
- Creates an environment where team members are given opportunities to develop so that team members grow and learn from the experience of working in a team.
- Regular reviews of team processes and progress may detect/solve problems sooner.
- Balance the necessary skills/knowledge/experience/expertise to achieve the objectives.

### 3 The stages of team development

- Forming
- Storming
- Norming
- Performing
- Adjourning/Mourning

#### DESCRIPTION OF EACH STAGE OF TEAM DEVELOPMENT

##### 3.1 Forming stage

- Individuals gather information and impressions about each other and the scope of the task and how to approach it.
- Teams are comfortable and polite with each other during this stage.
- People focus on being busy with routines, such as team organisation e.g. who does what, when to meet each other, etc.

##### 3.2 Storming

- Teams go through a period of unease/conflict after formation.
- Different ideas from team members will compete for consideration.
- Team members open up to each other and confront each other's ideas/ perspectives.
- Tension/struggle/arguments occur and upset the team members/there may be power struggles for the position of team leader.
- In some instances storming can be resolved quickly; In others, the team never leaves this stage.
- Many teams fail during this stage as they are not focused on their task.
- This phase can become destructive for the team/will negatively impact on team performance, if allowed to get out of control.
- This stage is necessary/ important for the growth of the team.
- Some team members tolerate each other to survive this stage.

##### 3.3 Norming/Settling/reconciliation

- Team members come to an agreement and reach consensus.
- Roles and responsibilities are clear and accepted.
- Processes/working style and respect develop amongst members.
- Team members have the ambition to work for the success of the team.
- Conflict may occur, but commitment and unity are strong.

##### 3.4 Performing stage/Working as a team towards a goal

- Team members are aware of strategies and aims of the team.
- They have direction without interference from the leader.
- Processes and structures are set.
- Leaders delegate and oversee the processes and procedures.
- All members are now competent, autonomous and able to handle the decision-making process without supervision.
- Differences among members are appreciated and used to enhance the team's performance.

##### 3.5 Adjourning/Mourning stage

- The focus is on the completion of the task/ending the project.
- Breaking up the team may be traumatic as team members may find it difficult to perform as individuals once again.
- All tasks need to be completed before the team finally dissolves.

**NOTE: You must be able to identify the above mentioned stages of team development from given scenarios/statement.**



#### 4 Importance of team dynamic theories in improving team performance

- Team dynamic theories explain how effective teams work/operate.
- Businesses are able to allocate tasks according to the roles of team members.
- Team members can maximise performance as tasks are allocated according to their abilities/skills/attributes/personalities.
- Team members with similar strengths may compete for team tasks/responsibilities that best suit their abilities/competencies.
- Theories assist team leaders to understand the personality types of team members so that tasks are assigned more effectively.
- Conflict may be minimised when team members perform different roles.

#### 5 CONFLICT RESOLUTION

##### 5.1 Causes of conflict in the workplace

- Differences in backgrounds/cultures/values/beliefs/language
- Limited business resources
- Different goals/objectives for group/individuals
- Personality differences between group/individuals
- Different opinions
- Unfair workload
- Ill-managed stress
- Unrealistic expectations
- Poor organisation/leadership/administrative procedures and systems
- Confusion about scheduling/deadlines
- Ignoring rules/procedures
- Misconduct/Unacceptable behaviour
- High/Intense competition/Competitiveness
- Poor communication
- Unclear responsibilities
- Distracted by personal objectives
- Constant changes in the workplace
- Unfair treatment of workers/Favouritism by management/Discrimination
- Lack of trust amongst workers

**NOTE: You must be able to identify causes of conflict from given scenarios/statement**

##### 5.2 Explanation of causes of conflict in the workplace

- Lack of proper communication between management and workers.
- Ignoring rules/procedures may result in disagreements and conflict.
- Management and/or workers may have different personalities/ backgrounds.
- Different values/levels of knowledge/skills/experience of managers/workers.
- Little/no co-operation between internal and/or external parties/stakeholders.
- Lack of recognition for good work, e.g. a manager may not show appreciation for extra hours worked to meet deadlines.
- Lack of employee development may increase frustration levels as workers may repeat errors due to a lack of knowledge/skills.
- Unfair disciplinary procedures, e.g. favouritism/nepotism.
- Little/no support from management with regards to supplying the necessary resources and providing guidelines.
- Leadership styles used, e.g. autocratic managers may not consider worker inputs.
- Unrealistic deadlines/Heavy workloads lead to stress resulting in conflict.
- Lack of agreement on mutual matters such as remuneration/working hours.
- Unhealthy competition/Inter-team rivalry may cause workers to lose focus on team targets.
- Lack of commitment/Distracted by personal objectives which may lead to an inability to meet pre-set targets.
- Constant changes may cause instability
- Lack of clarity regarding employees' roles and responsibilities.

### 5.3 Handling conflict in the workplace/Conflict resolution steps/techniques

- Acknowledge that there is conflict in the workplace.
- Identify the cause of the conflict.
- Arrange pre-negotiations where workers/complainants will be allowed to state their case/views separately.
- Arrange time and place for negotiations where all employees involved are present.
- Arrange a meeting between conflicting employers/employees.
- Make intentions for intervention clear so that parties involved may feel at ease.
- Each party has the opportunity to express his/her own opinions/feelings
- Conflicting parties may recognise that their views are different during the meeting.
- Analyse/Evaluate the cause (s) of conflict by breaking it down into different parts.
- Blame shifting should be avoided and a joint effort should be made.
- Direct conflicting parties towards finding/focusing on solutions.
- Devise/Brainstorm possible ways of resolving the conflict.
- Conflicting parties agree on criteria to evaluate the alternatives.
- Select and implement the best solution.
- Provide opportunities for parties to agree on the best solution.
- Evaluate/Follow up on the implementation of the solution(s).
- Monitor progress to ensure that the conflict has been resolved.
- Source experts on handling conflict from outside the business.

## 6 DEALING WITH GRIEVANCES AND DIFFICULT PEOPLE/PERSONALITIES

### 6.1 Differences between conflict and grievance

CONFLICT	GRIEVANCE
Clash of opinions/ideas/view points in the workplace.	When an employee is unhappy/ has a problem/complaint in the workplace.
Disagreement between two or more parties in the workplace.	It is when an/a individual/group has a work related issue.
	It is a formal complaint which requires employees to follow a grievance procedure
	Offers employees a channel to express their dissatisfaction in the workplace.
Examples that can cause conflict: A lack of trust/miscommunication/ personality clashes/different values.	Examples that can cause a grievance: Discrimination, unfair treatment, poor working conditions.



## 6.2 Correct procedures to deal with grievances

- An aggrieved employee must verbally report the incident/grievance to his/her supervisor/manager
- Supervisor/manager needs to resolve the issue within 3 to 5 working days.
- Should the employee and supervisor not be able to resolve the grievance, the employee may take it to the next level of management.
- The employee may move to a more formal process where the grievance must be lodged in writing/completes a grievance form.
- He/She must receive a written reply in response to the written grievance.
- A grievance hearing/meeting must be held with all relevant parties present.
- Minutes of the meeting must be recorded and any resolution passed must be recorded on the formal grievance form.
- Should the employee not be satisfied, then he/she could refer the matter to the highest level of management.
- Minutes of this meeting should be filed/recorded and the outcome/decision must be recorded on the formal grievance form.
- Should the employee still not be satisfied, he/she may refer the matter to the CCMA who will make a final decision on the matter.
- If the employee is still not satisfied he/she may refer the matter to the Labour Appeals Court who will make a final decision on the matter.

## 6.3 Types of difficult personalities

- Complainer
- Indecisive
- Over-agree
- Negativity
- Expert
- Quiet
- Aggressive

## 6.4 Ways in which businesses can deal with difficult personalities

TYPE OF PERSONALITY	STRATEGY TO DEAL WITH A PERSONALITY
<b>Complainer</b>	<ul style="list-style-type: none"> <li>• Listen to the complaints but do not acknowledge them</li> <li>• Interrupt the situation and move to the problem-solving process</li> </ul>
<b>Indecisiveness</b>	<ul style="list-style-type: none"> <li>• Guide them through alternatives.</li> <li>• Stay in control and emphasise the importance of making a decision.</li> <li>• Help them make the decision or solve the problem</li> </ul>
<b>Over-agree</b>	<ul style="list-style-type: none"> <li>• Be firm and do not let them make promises that they cannot keep.</li> <li>• Follow up on their actions</li> </ul>
<b>Negativity</b>	<ul style="list-style-type: none"> <li>• Be firm with them and do not let them draw the supervisor into their negativity.</li> <li>• Listen to them but do not agree with them</li> </ul>
<b>Expert</b>	<ul style="list-style-type: none"> <li>• Be firm and assertive.</li> <li>• Do not accuse them of being incorrect/Do not get caught in their game.</li> <li>• Know your facts.</li> </ul>
<b>Quiet</b>	<ul style="list-style-type: none"> <li>• Wait for their response/ Do not fill their silence with words</li> <li>• Prompt them through the process so that they can give input</li> <li>• Restrict the time of the discussion</li> </ul>
<b>Aggressive</b>	<ul style="list-style-type: none"> <li>• Allow them time to speak and blow off</li> <li>• Be firm, but do not attack them</li> <li>• Do not allow them to be hostile toward others</li> </ul>

**NOTE: You must be able to identify difficult personalities from given scenarios/statements**

and suggest strategies to deal with EACH type of difficulty personalities.

### 6.5 Ways in which businesses can deal with difficult employees in the workplace

- Get perspective from others who have experienced the same kind of situation to be able to understand difficult employees.
- Act pro-actively if possible, as a staff/personnel problem is part of a manager's responsibilities.
- Regular meetings with supervisors/departmental heads should help to identify difficult/problem behaviour.
- Ask someone in authority for their input into the situation.
- Identify the type of personality which is creating the problem.
- Meet privately with difficult employees, so that there are no distractions from other employees/issues.
- Make intentions and reasons for action known, so that difficult person/people feel at ease.
- Employees should be told what specific behaviours are acceptable by giving details about what is wrong/ unacceptable and also an opportunity to explain their behaviour.
- A deadline should be set for improving bad/difficult behaviour.
- The deadline date should be discussed with the difficult employee and his/her progress should be monitored/ assessed prior to the deadline.
- Guidelines for improvement should be given.
- Do not judge the person, but try to understand him/her/Understand his/her intentions and why he/she reacts in a certain way.
- Keep communication channels open/Encourage employees to communicate their grievances to management.
- Build rapport/sound relations by re-establishing personal connection with colleagues.
- Help difficult employees to be realistic about the task at hand./Be supportive of them and their issues.
- Remain calm and in control of the situation to get the person(s) to collaborate./Don't become difficult yourself.
- Treat people with respect, irrespective of whether they are capable/ competent or not./Don't try to change them rather see where you can use them effectively.
- Sometimes it may be necessary to ignore and only monitor a difficult person./Take a step back and analyse the situation before you respond.
- Identify and provide an appropriate support program to address areas of weakness.







**BUSINESS STUDIES  
GRADE 12  
TERM 2  
CHAPTER 11  
NOTES ON QUALITY OF PERFORMANCE  
REVISED  
2020**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**

**Learners must be able to:**

**QUALITY**

- Define the following concepts:
  - Quality
  - Quality control
  - Quality assurance
  - Quality management
  - Quality performance
  - Quality management systems
- Explain/Differentiate/Distinguish between quality control and quality assurance.
- Explain/Differentiate/Distinguish between quality management and quality performance.
- Explain/Discuss the advantages/benefits of a good quality management system.
- Explain/Discuss how quality of performance can contribute to the success of each business function.
- Outline the quality indicators for each business function.

**TOTAL QUALITY MANAGEMENT (TQM)**

- Elaborate on the meaning of TQM.
- Identify the following TQM elements from given scenarios/statements:
  - Continuous skills development/ Education and training
  - Total client/customer satisfaction
  - Continuous improvement to processes and system
  - Adequate financing and capacity
  - Monitoring and evaluation of quality processes
- Explain/Discuss/Analyse/Evaluate the impact of the above mentioned TQM elements on large businesses.
- Explain how businesses can apply the PDCA model/steps to improve the quality of products.
- Explain the role/importance of quality circles as part of continuous improvement to processes and systems.
- Explain/Discuss the impact of TQM if poorly implemented by businesses.
- Explain/Recommend/Suggest ways in which TQM can reduce the cost of quality.

**TERMS AND DEFINITIONS**

TERMS	DEFINITIONS
Quality	Products and services that satisfy needs and exceeds customer
Total Quality management	It is a management approach/system that focuses on continuous quality improvement throughout the business.
Management	Planning and management of quality through strong leadership and
Business functions	The various aspects of the business that perform different roles e.g.
SABS	South African Bureau of Standards, body that sets quality standards and
ISO 9001	Provides the guidelines for quality management. A company may not export any products unless it registers as an ISO 9001 company.
Standards	The specification of what is acceptable in terms of technical requirements.
Total client satisfaction	It is a measure of how products and services supplied by a company
Continuous skills	Developing employees' skills that will add value for the organisation and
Continuous improvement to	It is an on-going effort to improve products, services, or processes
Monitoring and evaluation	A process that helps to improve performance and achieve results. Its goal is to improve current and future management of outputs,
Quality circles	A group of workers who do the same or similar work, who meet regularly to identify, analyse and solve work-related problems.
Inspections	A method in which only a selection of products from a batch is measured and tested against required standards.
Deviations	When the product differs from the standard.
Tolerance limit	The extent in which a product is allowed to differ from the standard without affecting quality

**This chapter consists of 14 pages**



## QUALITY

### 1 Definition of quality concepts

#### 1.1 Quality

- Quality refers to a good/service's ability to satisfy a specific need.
- The efficiency of services and the ability to provide an effective outcome without too many delays.
- It is measured against specific criteria such as physical appearance /reliability/durability/sustainability/after-sales services.

#### 1.2 Quality control

- A system that ensures the desired quality is met by inspecting the final product to ensure that it meets the required standards.
- Checking raw materials/employees/machinery/workmanship/production to ensure that high quality standards are maintained.
- Includes setting targets/measuring performance and taking corrective measures.

#### 1.3 Quality assurance

- Checks carried out during and after the production process.
- Ensures that required standards have been met at every stage of the process.
- Processes put in place to ensure that the quality of products/services/ systems adhere to pre-set standards with minimal defects/delays/short-comings.
- Ensuring that every process is aimed to get the product 'right the first time' and prevent mistakes from happening.

#### 1.4 Quality management

- The process of managing all activities needed to ensure a business produces goods and services of consistently high standard.
- Refer to techniques/tools used to design/ improve the quality of a product.
- Can be used for accountability within each of the business functions
- Aims to ensure that the quality of goods/services is consistent/Focuses on the means to achieve consistency

#### 1.5 Quality performance

- Total performance of each department measured against the specified standards.
- Can be obtained if all departments work together towards the same quality standards.
- Quality is measured through physical product/statistical output of processes/surveys of the users and/or buyers of goods/services.

**NOTE: You must be able to identify the above mentioned quality concepts from given scenarios/statements.**





**2 Differences between quality control and quality assurance**

QUALITY CONTROL	QUALITY ASSURANCE
- System that ensures the desired quality is met by inspecting the final product. ✓✓	- Checks carried out during and after the production process. ✓✓
- Ensure that finished products meet the required standards. ✓✓	- Ensure that required standards have been met at every stage of the process. ✓✓
- Process of ensuring that products are consistently manufactured to high standards. ✓✓	- Processes put in place to ensure that the quality of products/services/ systems adhere to pre-set standards with minimal defects/delays/ short-comings. ✓✓
- Checking raw materials/employees/ machinery/workmanship/products to ensure that high standards are maintained. ✓✓	- Ensuring that every process is aimed at getting the product 'right the first time' and prevent mistakes from happening. ✓✓

**3 Differences between quality management and quality performance**

QUALITY MANAGEMENT	QUALITY PERFORMANCE
<ul style="list-style-type: none"> <li>• Techniques/tools used to design/ improve the quality of a product</li> </ul>	<ul style="list-style-type: none"> <li>• Total performance of each department measured against the specified standards</li> </ul>
<ul style="list-style-type: none"> <li>• Can be used for accountability within each of the business functions</li> </ul>	<ul style="list-style-type: none"> <li>• Can be obtained if all departments work together towards the same quality standards</li> </ul>
<ul style="list-style-type: none"> <li>• Aims to ensure that the quality of goods/ services consistent/ focuses on the means to achieve consistency</li> </ul>	<ul style="list-style-type: none"> <li>• Quality is measured through physical product/ statistical output of processes/ surveys of the users and/ or buyers of goods/ services</li> </ul>

**4 Benefits/Advantages of a good quality management system**

- Effective customer services are rendered, resulting in increased customer satisfaction.
- Time and resources are used efficiently.
- Productivity increases through proper time management/using high quality resources.
- Products/Services are constantly improved resulting in increased levels of customer satisfaction.
- Vision/Mission/Business goals may be achieved.
- Business has a competitive advantage over its competitors.
- Regular training will continuously improve the quality of employees' skills/ knowledge.
- Employers and employees will have a healthy working relationship resulting in happy/productive workers.
- Increased market share/more customers improve profitability.
- Improves business image as there are less defects/returns.

## 5 Contribution of business functions to the success of a business/Quality indicators

### 5.1 Contribution of the general management function to the success of a business/quality indicators

- Develop/Implement/Monitor effective strategic plans.
- Efficient organisation/allocation of business resources to provide for the successful achievement of long-term and short-term plans.
- Structured standards and norms should be in place so that control mechanisms can be implemented.
- Learn about/understand changes in the business environment on an on-going basis.
- Effectively communicate shared vision, mission and values.
- Set direction and establish priorities for their business.
- Be prepared to set an example of the behaviour that is expected from employees in terms of ethics as well as productivity.
- Be proactive and always seeks to improve competitive advantage over competitors.
- Ensure that all departments/the business meet their deadlines/targets.

### 5.2 Contribution of the production function to the success of a business/quality indicators

- Provide high quality services/products according to specifications.
- The production/operating processes of a business should be done correctly through proper production planning and control.
- Products and services should be produced at the lowest possible cost to allow for profit maximisation.
- Businesses should clearly communicate the roles and responsibilities to the production workforce.
- Products must meet customers' requirements by being safe, reliable and durable. ✓✓
- Businesses should have good after-sales services and warranties.
- Empower workers so that they can take pride in their workmanship.
- Get accreditation from the SABS/ISO 9001 to ensure that quality products are being produced.
- Specify the product or service standards and take note of the factors that consumers use to judge quality.
- Monitor processes and find the root causes of production problems.
- Implement quality control systems to ensure that quality building products are consistently being produced.
- Utilise machines and equipment optimally.
- Accurately calculate the production costs.
- Select the appropriate production system e.g. mass/batch/jobbing.



### 5.3 Contribution of the purchasing function to the success of a business/quality indicators

- Businesses should buy raw materials/products in bulk at lower prices.
- Select reliable suppliers that render the best quality raw materials/capital goods at reasonable prices.
- Place orders timeously and regular follow-ups to ensure that goods are delivered on time.
- Effective co-ordination between purchasing and production departments so that purchasing staff understand the requirements of the production process.
- Required quantities should be delivered at the right time and place.
- Implement and maintain stock control systems to ensure the security of stock.
- Maintain optimum stock levels to avoid overstocking/reduce out-dated stock.
- Monitor and report on minimum stock levels to avoid stock-outs.
- Effective use of storage space and maintain product quality while in storage.
- Involve suppliers in strategic planning/product design/material selection/quality control process.
- Ensure that there is no break in production due to stock shortages.
- Establish relationships with suppliers so that they are in alignment with the business's vision/mission/values.
- Have a thorough understanding of supply chain management.

### 5.4 Contribution of the marketing function to the success of a business/quality indicators

- Winning customers by satisfying their needs/wants and building positive relationships.
- Adhering to ethical advertising practices when promoting products/services.
- Identifying a competitive advantage to focus/improve on marketing strengths.
- Differentiating products in order to attract more customers.
- Constantly reviewing value issues.
- Communicating effectively with customers to get feedback about their experience of products sold/services rendered.
- Co-ordinating distribution with production and advertising strategies.
- Using pricing techniques to ensure a competitive advantage.
- Determine gaps between customer expectations and actual experiences, so that problems/unhappiness may be diagnosed and addressed.
- Making adjustments/changes to products/services based on feedback from customers/results of market research.
- Using aggressive advertising campaigns to sustain/increase the market share.

### 5.5 Contribution of the financial function to the success of a business/quality indicators

- Obtain capital from the most suitable/available/reliable sources.
- Negotiate better interest rates in order to keep financial cost down.
- Draw up budgets to ensure sufficient application of monetary resources.
- Keep financial records up to date to ensure timely/accurate tax payments.
- Analyse strategies to increase profitability.
- Invest surplus funds to create sources of passive income.
- Implement financial control measures/systems to prevent fraud.
- Implement credit granting/debt collecting policies to monitor cash flow.
- Draw up accurate financial statements timeously/regularly.
- Accurately analyse and interpret financial information.
- Invest in strategies that will assist the business to remain profitable.
- Avoid over/under-capitalisation so that financial resources will be utilised effectively.

### 5.6 Contribution of the public function to the success of a business/quality indicators

- Dealing quickly with negative publicity/less/little/no incidents of negative publicity.
- Providing regular/positive press releases.
- Implement sustainable Corporate Social Investment (CSI) programmes.
- Good results of/Positive feedback from public surveys on business image.
- High standard of internal publicity/appearance of buildings/professional telephone etiquette, etc.
- Deliver quality goods/services that promote the brand/image with key stakeholders/customers/suppliers/government/service providers.
- Compliance with recent legislation, e.g. BEE compliant.

### 5.7 Contribution of the administration function to the success of a business/quality indicators

- Fast and reliable data capturing and processing systems.
- Make reliable information available to management on time.
- Make relevant information available for quick decision-making.
- Handle complaints quickly and effectively.
- Use modern technology efficiently
- Implement effective risk management policies to minimise business losses.
- Quality assurance/Control/Evaluation is recorded accurately
- All documentation is kept neatly and orderly in a safe place.
- Easy to recall/find information/documentation.
- Financial documents are kept up to date and recorded accurately.
- All systems and processes are documented.

### 5.8 Contribution of the human resources function to the success of a business/quality indicators

- Makes sure there is a good recruitment policy that attracts best candidates.
- Ensures fair and equitable selection process
- Fair remuneration packages that is aligned to the industry.
- Offer performance incentives for staff to enhance productivity.
- Good relationship with employees.
- Low rate of staff turnover in the business

**NOTE: You will either be asked to explain/discuss how quality of performance can contribute to success or failure of each business functions or explain/suggest the quality indicators of business functions.**



## 6 TOTAL QUALITY MANAGEMENT (TQM)

### 6.1 Meaning of total quality management (TQM)

- TQM is an integrated system/methodology applied throughout the organisation, which helps to design/produce/provide quality products/services to customers.
- It is a thought revolution in management, where the **entire business** is operated with customer orientation in all business activities.
- TQM enables businesses to continuously improve on the delivery of products/ services in order to satisfy the needs of customers.
- Management ensures that each employee is responsible for the quality of his/her work/actions.
- TQM focuses on achieving customer satisfaction and looks for **continuous improvement** in all the business's processes, products and services.
- TQM takes steps to ensure the full involvement and co-operation of all employees in improving quality.

### 6.2 TQM elements

- Continuous improvement to processes and system
- Continuous skills development/ Education and training
- Total client/customer satisfaction
- Adequate financing and capacity
- Monitoring and evaluation of quality processes

### 6.3 Impact of total quality management elements on large business

#### 6.3.1 Impact of continuous improvement to processes and systems on large businesses

##### Positives/Advantages

- Large businesses have more resources to check on quality performance in each unit/department/business function.
- Enough capital resources are available for new equipment required for processes and systems.
- Large businesses have a person dedicated to the improvement of processes and systems.
- Willing to take risk on/try new processes and systems because they are able to absorb the impact of losing money.
- They can afford to use the services of the quality circles to stay ahead of their competitors.
- Large businesses use the PDCA model to continuously plan/do/check/act on new/revised processes and systems.

**AND/OR**

##### Negatives/ Disadvantages

- Large scale manufacturing can complicate quality control.
- Processes and systems take time and effort to implement in large businesses as communication/buy-in/may delay the implementation process.
- Face the risk of changing parts of the business that are actually working well.
- Not all negative feedback from employees and customers is going to be accurate, which may result in incorrect/unnecessary changes to processes and systems.



### 6.3.2 Impact of continuous skills development/Education and training on large businesses

#### Positives/Advantages

- Large businesses have a human resources department dedicated to skills training and development.
- Human resources experts ensure that training programmes are relevant to increased customer satisfaction.
- Ability to afford specialised/skilled employees.
- Large businesses could conduct skills audits to establish the competency/education levels of staff which may positively affect the quality of products.
- May be able to hire qualified trainers to train employees on a regular basis.

#### AND/OR

#### Negatives/Disadvantages

- Poor communication systems in large businesses may prevent effective training from taking place.
- Trained employees may leave for better jobs after they gained more skills.
- De-motivates employees, if they do not receive recognition for training.
- Employees who specialise in narrowly defined jobs may become frustrated/demotivated.
- Employees may not be aware of the level of competency they should meet in order to achieve their targets.
- It may be difficult to monitor/evaluate the effectiveness of training.

### 6.3.3 Impact of total client/customer satisfaction on large businesses

#### Positives/Advantages

- Large businesses uses market research/customer surveys to measure/ monitor customer satisfaction/analyse customers' needs.
- Continuously promote a positive company image.
- May achieve a state of total customer satisfaction, if businesses follow sound business practices that incorporate all stakeholders.
- Strive to understand and fulfil customer expectations by aligning cross-functional teams across critical processes.
- Ensures that cross-functional teams understand its core competencies and develop/strengthen it.
- May lead to higher customer retention/loyalty and businesses may be able to charge higher prices.
- Large businesses may be able to gain access to the global market.
- May lead to increased competitiveness/profitability.

#### AND/OR

#### Negatives/ Disadvantages

- Employees who seldom come into contact with customers often do not have a clear idea of what will satisfy their needs.
- Monopolistic companies have an increased bargaining power so they do not necessarily have to please customers.
- Not all employees may be involved/ committed to total client satisfaction.

### 6.3.4 Impact of adequate financing and capacity on large businesses

#### Positives/ Advantages

- Large businesses have sufficient financing to test everything before implementing.
- They can afford to have systems in place to prevent errors in processes/defects in raw materials/products.
- Able to afford product research/market researchers to gather information about products/customers/Large businesses can fund programmes aimed at improving quality processes.
- Can afford to purchase quality raw materials and equipment.

#### AND/OR

#### Negatives/ Disadvantages

- If the demand for company's product increases, orders begin coming in faster than expected, and the business lacks the capital required to fund the production of the stock to fill the orders.
- These rapidly growing companies can consume large amounts of capital as they try to balance normal operations and expansion.

### 6.3.5 Impact of monitoring and evaluating quality processes on large businesses

#### Positives/ Advantages

- Prevents product defects and minimises wastage/customer complaints.
- Good quality checks/procedures minimises the replacement/breakdown of equipment/machinery on a regular basis.
- May be equipped to get things done right the first time.
- Improve performance and maintain high quality standards.
- Improve current and future management of quality outputs/outcomes/impact.
- Provide clear indication about quality aspects that are contributing to the achievement of goals/targets.
- Modify interventions that may improve the efficient use of resources.
- Support management to acquire information needed to make informed decision about processes.
- Cost of production is reduced as deviations from set standards can be corrected.
- Strategies are revised in order to improve the quality of the product and services/business image.
- Allows for quality control checks and procedures at key points.
- Key performance indicators are carefully selected to monitor and evaluate the outcome.
- Benchmarking is used to find best practices in order to determine the competitive position of the business.
- Quality circles meet on regular basis to evaluate the progress in terms of quality.
- Continuous research is conducted on latest developments to ensure that TQM planning is up to date.

#### AND/OR

#### Negatives/ Disadvantages

- Large businesses are often divided and the departments work in silos. It is difficult to get everyone to communicate.
- It often takes longer to detect problems or respond to weaknesses
- It is not viable to check quality of all the products

## 7 Application of the PDCA model/cycle in improving the quality of products

### Plan

- The business should identify the problem.
- Develop a plan for improvement to processes and systems.
- Answer questions such as '*what to do*' and '*how to do it*'.
- Plan the method and approach.

### Do

- The business should implement the change on a small scale.
- Implement the processes and systems

### Check/Analyse

- Use data to analyse the results of change.
- Determine whether it made a difference.
- Check whether the processes are working effectively.
- The business should assess, plan and establish if it is working/if things are going according to plan

### Act as needed

- Institutionalise the improvement.
- Devise strategies on how to continually improve.
- If the change was successful, implement it on a wider scale.
- Continuously revise the process.

**NOTE: The PDCA model forms part of the TQM element continuous improvement to processes and systems**

## 8 Role/Importance of quality circles as part of continuous improvement to processes and systems

- Solve problems related to quality and implement improvements.
- Investigate problems and suggest solutions to management.
- Ensure that there is no duplication of activities/tasks in the workplace.
- Make suggestions for improving systems and processes in the workplace.
- Improve the quality of products/services/productivity through regular reviews of quality processes.
- Monitor/Reinforce strategies to improve the smooth running of business operations.
- Reduce costs of redundancy in the long run.
- Increase employees' morale/motivation.
- Quality circles discuss ways of improving the quality of work/workmanship.
- Contribute towards the improvement and development of the organisation.
- Reduce cost of redundancy/wasteful efforts in the long run.
- Increase the demand for products/services of the business.
- Create harmony and high performance in the workplace.
- Build a healthy workplace relationship between the employer and employee.
- Improve employees' loyalty and commitment to the organisation and its goals.
- Improve employees' communication at all levels of the business.
- Develop a positive attitude/sense of involvement in decision making processes of the services offered.



### 9 Impact of TQM if poorly implemented by businesses

- Setting unrealistic deadlines that may not be achieved.
- Employees may not be adequately trained resulting in poor quality products.
- Decline in productivity, because of stoppages.
- Businesses may not be able to make necessary changes of products/services to satisfy the needs of customers.
- The reputation of the business may suffer because of faulty/poor quality goods.
- Customers will have many alternatives to choose from and the impact could be devastating to businesses.
- Investors might withdraw investment, if there is a decline in profits.
- Bad publicity due to poor quality products supplied.
- High staff turnover, because of poor skills development.
- Undocumented/Uncontrolled quality control systems/processes could result in errors/ deviations from pre-set quality standards.

### 10 Ways in which TQM can reduce the cost of quality

- Introduce quality circles to discuss ways of improving the quality of work/ workmanship.
- Schedule activities to eliminate duplication of tasks.
- Share responsibility for quality output amongst management and workers.
- Train employees at all levels, so that everyone understands their role in quality management.
- Develop work systems that empower employees to find new ways of improving quality.
- Work closely with suppliers to improve the quality of raw materials/inputs.
- Improve communication about quality challenges/deviations, so that everyone can learn from experience.
- Reduce investment on expensive, but ineffective inspection procedures in the production process.
- Implement pro-active maintenance programmes for equipment/machinery to reduce/eliminate breakdowns.

