Business Studies

MEMORANDUM PAPER 2
Grade 12

Question 1

You, as a consultant, have been approached by Mr. M Harvey to assist them in improving the overall performance of Clicks.

Write a business report to Mr. Harvey recommending strategies that can be implemented to overcome challenges and motivate your recommendations for the following:

Analyse any FIVE factors in the macro environment which may affect the performance of Clicks as a business. Describe how the form of ownership may contribute to the success or failure of Clicks.

*Insurance and Assurance are two of the specific strategies that Clicks already uses very effectively. Explain the differences between these two concepts, the advantages of having them, and then explain in detail **one** example of **compulsory insurance OR assurance** and **one** example of **non-compulsory insurance OR assurance.***

50 marks

Possible Answer
FORMAT: Business Report

Pestle Analysis used to identify challenges: ANY FIVE FACTORS

MARK ALLOCATION
Naming factor ✓
Description✓
Application to Clicks ✓✓
Solution and recommendation ✓✓

P   Political Environment
E   Economic Environment
S   Social Environment
T   Technological Environment
L   Legal Environment
E   Ethical Environment

Also:

E =   Environment
P =   Physical Environment

CORPORATE STRATEGIES

Growth strategies refer to any strategy implemented to increase the target market of the business. This can be done through product development or penetrating a new market. Alternatively the business can grow through integration with other businesses or through diversification (expanding the product mix).

Decline strategies are followed when the business is experiencing difficult times. The business may decide to cut its losses (divestiture – selling assets, part of the business) or to limit its exposure in a market by withdrawing (harvest strategy) large amounts of cash or assets from the industry in which demand is declining. A liquidation strategy is the harshest form of decline where the business is sold / terminated.

Corporate combination strategies
Joint venture – joining resources with another stakeholder to achieve synergy (e.g. one business provides the skill and another business the capital) but both maintain their own identities.
Merge – consensual combination of business that will be to the advantage of both businesses.
Take over may be hostile if the company that plans to take over the new business informs the Board of Directors of their plans and the Board of Directors rejects the offer to be taken over.

GENERIC STRATEGIES:

Low cost - Activities that don't offer cost benefits must be discontinued e.g. outsourced or re-structured to save costs. Competitive advantage is based on having the lowest cost in the industry, i.e. needs low cost manufacturing (mass production, economics of scale, low input costs etc).

Differentiation - unique product / service. Customer loyalty – prepared to pay a premium. Uniqueness can be based on, for example, quality, fashion, image or after-sale support but must be difficult for competitors to copy.

Focus – This has a narrow competitive scope with the focus on a specific market segment – age,
geographical area, hobbies etc. Customers must have a distinct preference based on their profiles in order for this strategy to be implemented successfully.

Some of the factors that may impact on the success or failure of the business will include:

Formation procedures:
The more legal formalities involved in starting the business, the more expensive, difficult and time-consuming it will be to establish the business.

Sole traders and partnerships are very easy to establish, as there are almost no legal requirements to start one of these forms of ownerships.

In a close corporation (CC) a founding statement (CK1) is required once the CK 7 (Registration of the name) has been submitted and approved by the Registrar of Close Corporations. The CK1, together with a small registration fee, must be paid to the Registrar of Close Corporations at CIPRO (Company and Intellectual Property

Registration Office) to start a CC. Registering the business provides the advantage of limited liabilities for members.

Both private and public companies are registered with the Registrar of Companies (at CIPRO) and as such have legal personalities. This means shareholders have limited liability. Formalities and costs to establish a company are quite high, especially in the case of a public company.

Legal persona and liability:
As already mentioned, the business obtains legal persona when it is registered. When the business has legal personality, it offers the owners limited liability because the business entity is sued and owners therefore do not run the risk of losing their personal possessions. CCs and companies are the legal entities and owners therefore have limited liability.

A sole proprietorship and partnership cannot be registered; owners therefore have the increased risk of unlimited liability. Partners are jointly and severally liable for the debts of the partnership. This means all partners can be held liable for the debts or an individual partner can be held liable for paying the debts of the business. The individual partner can then claim the money paid to settle the debt from other partners proportionally. Partners also have unlimited liability which means if there is not sufficient money in the business to repay debt, owners could lose their personal possessions.

Continuity of enterprise:
A business will only have continuity of existence if the business has legal persona (is a legal entity) apart from the owners. If there is continuity, a change in ownership (e.g. the death or retirement of one of the owners or the addition of a new owner) does not affect the existence of the business.

Sole trader	-	No continuity
Partnership	-	No continuity
Close Corporation	-	Continuity
Private Company	-	Continuity
Public Company	-	Continuity

Tax implications:
Please make sure you familiarise yourself with the latest tax legislation as announced in the annual National Budget in February.

The progressive tax system applies to individuals in South Africa. This means that the higher the income, the higher the tax percentage that applies. The owner of a sole trader and the partners in a partnership are taxed on personal income / profits from the business and could be taxed up to a maximum of 40%. If a sole trader and the partners receive a substantial amount of profit, they will be taxed more than a CC or a company.

In a CC and a company the business is responsible for paying income tax on profits generated. Currently (2008/9 tax year) a fixed percentage of 28% tax applies to the company, while shareholders will pay a 10% STC dividend's tax.

Management/control aspects:
The owner of the business must decide if he would prefer to keep control over the management of the business. In a sole trader, partnership and close corporation, the

owners are usually involved in the day-to-day management of the business. In a company, shareholders (owners) usually delegate the management of the business to a Board of Directors, i.e. there is usually separation between ownership and management.

The owner of a sole proprietorship usually manages the business. If he is sick or goes on holiday, the business may have to close and, as a result, lose business opportunities and even customers. The same is often true in a partnership, although partners may decide not to take leave at the same time. This will then increase the possibility of success.
When members of a CC manage the business, the same principles apply as for a partnership, or if there is one owner, the same is true as for a sole trader.

The law requires a minimum of two directors in a public company and the management of the business is therefore not impacted upon by the personal lives of the owners.

Capital requirements based on the size of the business and nature of products/services:
The size of the business will determine the amount of capital required. In addition, the type of product to be manufactured and/or sold or the service that will be rendered may also impact on the capital requirements.

A manufacturer producing on a large scale will probably need more capital than a service undertaking because the manufacturer will have to buy expensive machines and equipment. Mass producers will therefore require a form of ownership where more owners can contribute to raise capital (more owners = more capital).

It is also worth noting that a capital-intensive business will require a larger initial capital outlay to buy the machines and equipment, while a labour-intensive business may not have such a large initial capital outlay, but may require bigger amounts of working capital to cover salaries and wages.

A partnership can raise more capital than a sole trader (up to 20 people can contribute capital). A private company can potentially raise even more capital because shareholders may be increased to 50 and, due to the legal persona of the business, it may also borrow capital in its own name.

A public company has a very large number of shareholders, limited only by the number of shares available, and can thus raise very large amounts of capital.

Insurance and Assurance

Insurance is a contract of utmost good faith between an insurance company (insurer) and an individual or business (insured) where the insurance company promises to compensate the insured for any insured loss that may occur. The insured will however have to pay an insurance premium in order to be covered for the specified event. The premium is based on the value of the insurable interest and the risk involved. The main aim of insurance is to provide protection for assets.

Assurance, unlike insurance, is taken out as cover for a risk that is certain e.g. loss of life is covered by life assurance. The aim of assurance is to provide security and covers long-term risks e.g. life or retirement. The policyholder is the person who takes out the policy i.e. it is registered in their name whilst the beneficiary is the person the policy will pay out to e.g. a wife on the death of a husband.

Insurable interest:
Insurable interest means that the insured must be able to prove that that he will to lose financially if the object is destroyed or damaged. The person or object at risk forms the basis of the contract. The following are examples of insurable interest:
- A person has an insurable interest in his own life and health
- Partners have insurable interest in the lives of co-partners
- A creditor has insurable interest in the life of his debtor
- A married person has insurable interest in the life of the spouse
- A person has insurable interest in his own property

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

Types of assurance include
- Life assurance which is cover for the loss of life.
- Term assurance is life cover that is valid for a specific period / term. It is usually taken to cover a person during a debt period e.g. whilst paying a bond on a house.
- Endowment is an investment policy which pays out after a specified time period e.g. 10 years
- Retirement annuity (RA) is a policy taken out to provide an income (pension) on reaching retirement age
- Disability cover means the insured will be paid out a certain predetermined amount on disability
- Trauma cover or Dread-disease is a policy that covers a list of serious illnesses e.g. cancer, heart attacks etc.
- Funeral cover is used to pay for funeral costs.

Non-Compulsory Insurance
Insurable risks:
Fire insurance covers damage resulting from a fire to a building, stock, equipment etc. Included in the contract is damaged caused by smoke and / or water used in the process of extinguishing the fire. Excluded are fire damages as a result of volcanoes, earthquake and riots / war.
- The premium charged will depend on the risk and the value of the item to be insured. Risk refers to the nature of the product (e.g. flammable or not), the availability of fire extinguishers, the nature of adjacent buildings as well as the construction of the building (e.g. thatch roof).
- The insurance company has to be informed immediately if there was a fire. It is the responsibility of the insured to prove that the losses suffered was as a result of the fire.
- Most insurance contract contains an "iron safe clause" which forces the insured to keep a full set of stock records in a fire proof safe.
Vehicle insurance:

Premiums paid will be determined by value of vehicle and risk (e.g. claims history of driver, age of the driver as well as purpose for which vehicle is used).

All weather insurance, damage and theft insurance is usually covered by home-owners and households policies. The all weather insurance covers damage caused by storms, hail, floods, lightning, earthquakes and burst water pipes. Theft insurance covers forced entry when the business is closed to the public – this is known as burglary. Stock and equipment are also covered by these policies.

The premium charged will once again depend on value of goods insured and the risk involved. Risks will be determined by looking at factors such as situation of the property, e.g. area crime rate.

Insurance of money in transit, e.g. covering cash receipts being transported to the bank. The maximum amount covered will be specified in the insurance policy.

Fidelity insurance covers losses sustained due to dishonesty of employees, e.g. theft of money or fraud. The policy could cover individual employees who are specified by name and position OR it could be a floating policy where all staff members in specific positions are covered for an overall amount.

Liability insurance covers a person who becomes liable for losses caused by his negligence or defects in his property. A public liability policy indemnifies the insured for an amount he may have to pay through such a liability arising (this includes legal costs).

Group life cover occurs when a business insures its workers for an amount equal to their annual salary multiplied by a factor e.g a factory machinist earning R60 000 p.a. may be insured for twice his annual salary. This means if the worker were to pass away, his family would receive a payout of R120 000. Premiums on group cover are lower than individual policies because a larger number of people are insured which reduces the risk and increases the insurance companies monthly income.

Loss of income insurance is an important insurance cover for entrepreneurs i.e. self-employed business people, but also for employees. Should the person be unable to work for a period of time and therefore lose income, the policy will pay out to cover the loss of income.

Compulsory insurance:

Unemployment insurance (UIF):
- Unemployment insurance covers employees against loss of income if they don't have a job, e.g. if the worker is retrenched due to economic circumstances. A worker may not claim if they quit their job. However, according to the UIF Act a worker may claim UIF benefits if they are fired or if their contract was terminated.
- UIF contributions are made by the employer and the employee. The employer deducts an amount equal to 1% from the employee's salary and is then responsible to pay this deduction together with his equal contribution to the UIF fund. UIF is payable by all employees irrespective of the salary earned. The UIF contribution is calculated at as 1% of the employee's salary. The maximum amount that can be deducted from the employee's salary per month as a UIF contribution is adjusted from time to time but is specified in the UIF Act.

- Changes in legislation that came into affect on 1 April 2003 now specify that domestic workers are also covered by UIF. Public servants, foreigners on contract and people employed for less than 24 hours per month are however excluded. The exclusion also applies to people earning commission only.
- Pregnant women can also claim but will only receive benefits for 17 weeks.

The Compensation for Occupational Injuries and Diseases (COIDA)
- The Compensation for Occupational Injuries and Diseases Act requires that employers take out workmen's compensation on behalf of the employees to protect employees against injuries or death at work.
- Workmen's compensation protects the employer from claims made against him by the employee.
- Compensation is provided to the employee or his family in the case of the employee being unable to work due to an accident whilst being at work. Medical expenses and loss of earnings will also be covered. Should it be a serious accident and the employee is disabled he may also claim benefits and if he dies, his dependants will qualify for compensation.
- Workmen's compensation does not apply to military staff, the Police Force, domestic workers and casual workers.

Road Accident Fund (RAF):
- The RAF is a compulsory insurance that applies to motor vehicles.
- Innocent drivers and passengers are covered against financial losses suffered due to injuries as a result of an accident on the road.
- The contribution towards this fund is made in the form of a levy on petrol and diesel.
- Compensation includes:
  - hospital and medical expenses future hospital and medical expenses anticipated
  - loss of income future loss of income anticipated
  - general compensation for pain and suffering
  - As from 1 August 2008 the maximum claim limit of R25 000 per passenger in the offending car no longer applies. This means all victims have the same right to claim regardless of the guilt / innocence of the driver in whose car they travelled.

Concepts relating to Insurance and Assurance:

Risk, peril and hazard
Indemnification
Security
Excess
Proximate cause
Subrogation
Or any other relevant.

Advantages of insurance (reasons for insurance).
- Insurance protects a business as well as individuals against different kinds of insurable losses, e.g. fire or theft or any other risk they choose to insure against.
- Life assurance provides security to families because breadwinners can make provision for their dependents by taking out life assurance.

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

Question 2

Clicks provides direct employment to a large number of people, the majority whereof come out of the local community. Management ensures workers are trained in the fields of customer issues, technological advancements and general business skills. Employees are provided with the opportunity to further their knowledge and expertise by attending advanced courses. In addition Clicks provides bursaries for tertiary education to its employees.

Clicks had been experiencing high rates of staff turnover, and the Human Resource Manager has e-mailed you for advice. Although Clicks is paying above average salaries, she suspects that they are not hiring the correct people to start with and that financial remuneration is not the only aspect which is important in retaining staff.

She also finds it difficult to deal with employees' conflict, as she feels responsible for well being of the employees at Clicks.

Reply to this e-mail and give the HR manager advice on these issues regarding Human Resource Management, as well as on how to apply conflict management skills to resolve differences in business situations.

50 marks

NOTE: Problem identification:

Not hiring correct employees and retention policies/remuneration structures incorrect.

Solutions:

1. Manpower Planning, Recruitment, Selection, Structuring of benefits, Retention (max 6 marks per issue) NOTE: Already doing enough training and paying good salaries.
2. Contracts, Induction, Exit interviews, placement (max 2 marks each).

Manpower Planning

Work-load analysis, Job analysis, job specification, job description, Manning table and recruitment table.

Recruiting - finding employees

Recruiting now seeks to attract job applicants with the necessary skills and motivation to cover these shortages.

There are two sources of new employees:

- within the firm where people can be appointed to new positions by means of transfer, upgrade or promotion.
- outside the business by appointing people from other businesses, schools, colleges and universities.

In the event of internal recruiting, a number of techniques can be applied.

- Job posting means that the employer notifies all present employees of the vacancies that exist. Those employees who think they may qualify for any of the vacancies then put forward their names to be considered for specific vacancies.
- The organisation searches its files for potentially qualified candidates by looking at skills inventories. Candidates that are identified are then contacted and asked whether they wish to apply.
- Recommendations by present employees is a hybrid (combination) of an internal and partly external source.

External sources include:
- Advertising in newspapers, trade journals, on the radio, window displays and on notice boards;
- Schools, colleges, universities and other educational institutions;
- Private and public employment agencies;
- Casual applicants or so-called "walk-ins";
- Internet recruitment businesses.

Selection

Selection involves screening applicants and choosing the most suitable candidate.

Whereas the recruitment activity is positive, the selection activity is negative. Selection is aimed at excluding unsuitable applicants whose skills and experience do not match the requirements laid down in the job specification.

A good selection process will probably result in a lower turnover of staff, lower production costs, less training and higher productivity.

Standard selection procedures often involve the following, which may vary with the seniority of the position in the business enterprise:

- Receipt of application forms (external & internal) and / or Curriculum Vitae (CV)
- Initial screening
- Use the CV /job application evaluation to draw up a short list
- Check references and background of short list
- Interviewing of short list
- Different tests and examinations
- Medical examination (if applicable)
- Letter of appointment

Receipt of the application forms / CV's.

Once the vacant post has been advertised, the HR manager (or a subordinate) must be available to answer any queries from applicants. After the closing date for applicants has passed, a list of all application forms received should be drawn up. Documentation received from applicants i.e. a letter of application, an application form and curriculum vitae should be checked against this list to ensure all the relevant documentation has been received.

Initial screening

The purpose of the initial screening process is simply to identify those applicants who obviously do not meet the minimum requirements of the job in respect of qualifications, experience etc. Those who do not fit the job specification are informed accordingly. Sometimes the business just states if the candidate is not contacted by a specific date, he is to assume the application was not successful. Those applicants who are suitable for consideration for the job are referred to the next step.

CV / Job application evaluation

A selection panel will now evaluate the Curriculum Vitaes/ job applications of all applicants who meet the minimum requirements for the job. A pre-

determined set of criteria will be used. Usually a 7-point scoring system is used to evaluate each applicant in each of the number of categories with 7 being the highest score and 1 the lowest score. The selection panel will rank the applicants according to the total scores achieved on the CV evaluation. This illustrates the importance of having a comprehensive CV that meets the requirements of the employer.

A short list of applicants is now drawn up with the number of candidates on the short list depending on the suitability and quality of applicants.

Reference and background checks

The applicants on the short list are the potential new employees and therefore the HR department will wish to verify as much information supplied in the CV as is possible. Employment records and qualifications will be checked. The Personnel Manager may communicate with the referees provided by the applicant in order to ask relevant questions about the applicant which may not be included in the CV e.g. how is the applicants people skills? Is the applicant trustworthy? It is important to use a standardised set of questions to ensure fairness to all applicants.

Interview of candidates on the short list

The interview may be carried out by one person or by a panel e.g. the Personnel Manager, Head of the relevant department and the supervisor of the section. It is important that the same person or panel interviews all the applicants to ensure consistency and fair labour practice.

The purpose of the employment interview is two-fold, i.e.

- to get more information from the applicant in order to assess his/her suitability for the job and
- to give more information about the firm, the job, and the conditions of employment to the applicant.

Tests and examinations

There are different types of tests that can be used to disclose more information as to the applicant's suitability for the job. Depending on what type of requirement is to be measured, a careful selection must be made of what test to use. It is important to note that The Employment Equity Act

(section 8) prohibits the use of tests if it discriminates against any person on the grounds of culture.

The following types of test are available:

- Ability/trade tests indicate what tasks the applicant can currently perform and what tasks he might be able to perform in future, given the opportunity through training,
- Psychometric tests which include personality and interest tests, measure the applicant's motivation and intelligences.
- Work sample tests are literally samples of work to be found in a certain job and are designed to measure what the applicant can do and at what skill level.

Medical examination

It is important to note that The Employment Equity Act (section 7) states clearly that no medical examination may be required unless it is an inherent requirement of the job or for the purpose of the distribution of employee benefits. The law is also very clear on the circumstance regarding when HIV-AIDS testing is allowed.

The employer will usually give the prospective employee a health related questionnaire to complete and if there is any doubt regarding the medical status of the employee relating to the requirements of the job (e.g. bus driver), the employer may request a medical examination which may include drug and alcohol testing.

Letter of appointment

Once all relevant information has been collected by means of the previous steps, the selection decision can be taken as to whom to appoint. In the case of only one appointment the selectors will rank the applicants in order of suitability for the job i.e. the best person, second best, etc. A written offer of appointment will first be made to the best person and if he or she accepts the offer (preferably in writing), the other candidates will be informed in writing that their applications were not successful. If the best person does not accept the offer, then an offer is made to the second-best candidate, and the process is repeated until an appointment is made. If no

one accepts the offer, the whole recruiting process must start again right from the beginning.

The whole recruitment process may be observed by staff representatives e.g. a trade union representative to ensure that the process is fair to all applicants.

Employment contracts

The LRA (Labour Relations Act) now requires the employer and employee to agree, draw up and sign an employment contract. This contract is a legally binding document and must at least comply with the Basic Conditions of Employment Act (outlined later in this chapter). The employer may offer better conditions of employment but not less than those stated in this Act.

The contract should include at least:

- Employer details – full name and address
- Employee details – full name, identity number, address, contact details, taxation number etc.
- Employment details – position held, outline of duties, appointment date, probation period, hours of work, permanent or contract appointment etc.
- Salary issues – basic starting salary, overtime rate, incentives, deductions e.g. pension, medical aid, staff association, tax, as well as date of payment (and method), bonus, increases etc.
- Leave details – number of days normal leave per year, sick leave per cycle, leave for personal affairs, unpaid leave etc.
- Termination of services – the notice period that must be given by each party on ending the employment contract as well as retirement age.
- Any other issues deemed necessary by either party should be included in the contract.

Remuneration (Aquelle already paying well. Any comments must note the structure of remuneration to include more benefits, employee input etc)

Salaries and wages (as addressed in the BCEA) represent one of the most important aspects of any business. It usually amounts to a major share of the

business's expenditure and is also the main reason and influencing factor why a worker chooses to work in a particular job or enterprise.

Job evaluation refers to the process where the relative importance of a job in the business is investigated in order to create a job hierarchy. The remuneration for the job is then determined by the job grade (job's status) in the hierarchy. This will lead to equity in the organisation because the remuneration range (scale) is linked directly to the contribution that job makes to the performance of the organisation. Job grading or evaluation should not be confused with performance evaluation where the individual's performance in a particular job is evaluated and the linked to his annual increase. The exercise of job evaluation is to create a salary range or scale within which the individual's remuneration will be adjusted based on his performance.

Salaries are payments made to permanent employees who provide a professional, skilled or managerial function. Salaries are fixed amounts paid once a month on an agreed upon date.

In the sales industry commission forms part of the salary package. Most employees earn a basic salary and then receive a percentage of their sales as commission. The higher the individual sales the higher the salary earned.
It is common practice in big business that managerial employees are remunerated on a performance basis. This performance bonus is received in addition to the normal salary and is seen as an incentive.

Wages are payments made to employees who provide a less skilled form of labour. Payment is usually made on a weekly basis but may be daily or monthly. Different methods such as time worked or output delivered (piece rate) may be used to calculate the wages. Alternatively the worker can be paid a fixed wage.
Employees may also receive overtime payment for working after normal working hours i.e. extra hours, over a weekend, public holiday etc.
Workers in factories, security companies, hotels etc, that operate 24 hours per day may be paid a shift rate. The BCEA states that workers working night shift (6 p.m. to 6 a.m.) must receive compensation in the form of an allowance, time off etc.

In some cases a business may implement a profit sharing scheme which may be seen as a bonus or part of the salary package.

Many job seekers are influenced in choosing a particular employer because of the benefits offered. These benefits may be compulsory e.g. pension or provident, medical aid and UIF. In most cases the worker must belong to the pension fund and medical aid chosen by the employer. The worker contributes to these funds as salary deductions (taken from the basic salary by the pay roll department) and the employer then contributes a further amount to the funds.

Further benefits may include:
- a housing allowance,
- company car or transport allowance,
- education or study allowances,
- meals,
- discounts on goods purchased,
- loans at reduced interest rates,
- clothing or uniform allowances,
- 13th or bonus cheques,
- entertainment allowances or travel allowances etc.

These fringe benefits are deemed to be part of the salary package and as a result are taxable. The business is compelled to make income tax deductions from employees' salaries. This takes the form of:
- SITE (Standard Income Tax on Employees) tax with employees earning over R80 000 paying PAYE (Pay As You Earn). South Africa has a progressive tax structure, which means the more a person earns the higher the tax rate.
- Provisional tax is paid at the standard rates by individuals and organisations who do not have fixed incomes.

Salary scales.
Often an employee will be offered a position in a business earning a particular salary scale e.g. 180 000 x 24 000 + 228 000 x 36 000 + 336 000

This would mean a person would start on a salary of R180 000 p.a. with an increment of R24 000 p.a. until the salary is R228 000 then an increment of R36000 p.a. until a ceiling of R336 000 is reached after which the normal annual increase s determined by the business will apply.

An employee who chooses not to purchase a house and therefore not be eligible for a housing allowance will earn R240 000 (R264 000 minus the housing allowance) in the "Basic plus Benefits structure" and R250 000 in the "Cost to Company structure". An employee taking advantage of all benefits would earn the total package of R264 000. Many wage earners are not recipients of these benefits.

Many businesses' have adopted the idea of "a happy worker is a productive worker" and have realised that working conditions play an important role in the productivity and efficiency of workers. Some businesses have introduced gyms, crèche's, coffee shops and entertainment areas to the work place. Google (USA) was recently voted the best place of earth to work, with perks including all of the above as well as free haircuts, car washes, lunches and movies!

Female staff (and many modern Dads who now share child care responsibilities) need to consider family responsibilities and work commitments that often means doing a balancing act. The introduction of care facilities for young children have made mothers (and fathers) feel more relaxed knowing that their young ones are close by with the spin off being less "sick leave" being taken by Moms. This type of benefit does not have a monetary advantage but rather an improved quality of life benefit for the employee.

Placement of staff

In some business enterprises a large number of people are appointed at the same time. Banks and insurance companies for example, take on a large number of clerical people, particularly at the beginning of the year. Once the selection decision has been taken as to whom to appoint, the placement decision must be made. This requires that the abilities of the individuals are compared with the requirements of the vacant positions and each individual is then placed in the position where the best match is achieved between the individual's abilities and the requirements of the job. It may also be true that a

candidate applies for a specific position, but is placed in a different position where the business thinks his skills may be better utilised.

Induction of staff

Sometimes induction is also referred to as orientation, which should be distinguished from training. The purpose of induction is two-fold:

- To let the new employee learn the ways in which the business does or does not do things, as well as the general rules that apply. This does not refer to specific job training. In other words, induction is the same for all employees, irrespective of the job they are being employed to do.
- To enable the new employee to fit into the existing work group, including subordinates and superiors. This contains an element of socialisation that helps the new employee to feel at home.

New employees often experience a high level of anxiety, which can be reduced through a carefully planned induction process. The induction programme must be properly spaced over time and include topics such as the following:

- Most relevant and immediate kinds of information and company policies.
- Knowledge of what supervisors expect, how long it takes to meet expected work standards, and where to seek help and advice.
- Introduction to fellow workers and people with whom they will work.
- How the department fits into the business, and knowledge of products and services.
- This process is often expedited by the appointment of a mentor who will oversee the new employee's first few months in the business as there will be many questions and problems that arise during that time which are not covered by the initial induction process.

Retention

Exit interviews to identify problems.

Happy working environment – socials, good working conditions, open communication, grievance procedures etc

Empowering of employees – giving adequate resources and decision-making, growth etc opportunities
Probationary periods for new employees
Incentives and rewards
Staff appraisals

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_____

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

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

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

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

Change:
Proper change management will help to increase the chances of survival of undertakings operating in the *new economy*.
There is, however, (almost) always resistance to change. This resistance often leads to conflict.

Inclusivity and cultural diversity:

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

Lack of or poor communication:

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

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

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

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

Resource allocation:

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

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

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

Personalities and emotions:

All people in the workplace are unique. Sometimes different personality types thrown together in close proximity in the workplace may contribute to conflict. Different personality types also react with different emotions to situations.

Values and ethics - Perceived or real:

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

Perceptions are more important than reality. People often believe what they perceive to be true even if it is not true and this may lead to unnecessarily conflict.

Inner Conflict

Conflict is not only external. We are all human, and as such, bring our past experiences, issues, beliefs and morals into every situation. Often, our **perception** of a situation is far more important (and influential) than the reality.

Some of the issues that can lead to inner conflict:

- Jealousy (as above)
- Feelings of inferiority, being used as a scapegoat
- Need to control or need to impress people (seeking constant approval)
- Personal morals, beliefs and ethics
- Oversensitivity and low self esteem

Resolving inner conflict

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

What skills should a manager have and what tools can be used to manage conflict?

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

Ability to deal with change

Change is often one of the key contributors to conflict. Managers at all levels should be able to cope with change and help their employees deal with change. This can be done by understanding how people deal with change and helping them to overcome anxieties related to change. People's first reaction to change is usually resistance. Communication to motivate the change and training can be used to overcome or reduce resistance to change.

Tolerance regarding inclusivity and cultural diversity:

People should be exposed to and educated regarding cultural diversity to create tolerance for differences. Keep background information in mind when dealing with different people.

Communication skills:

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

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

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

cause problems.

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

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

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

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

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

Emotional intelligence to deal with different personalities and emotions:
Emotional intelligence refers to the person's ability to manage relationships in a mature manner and this may include, amongst other things to resolve conflict and disagreements in a positive manner.

A good starting point of resolving conflict due to personalities and emotional issues is to keep emotions in check. This does not imply a person has to ignore their emotions

or pretend they don't exist, but rather that a choice is made how to vent those emotions.

The manager should acquire the skill to steer the conflict in such a manner that people focus on the problem at hand and not get abusive towards the other party. When emotions run high these two issues (the problem vs. the other person) often become entangled.

It is important that the origin of the conflict situation remains the focus and that the conflicting parties don't get side tracked with non-pertinent issues in this emotional debate.

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

Management of conflict (how people deal with conflict):
Stimulating functional conflict - Devil's advocate
Conflict can stimulate creativity and prevent "group think" in teams. Group think occurs when team members do not want to criticise one another because of their desire to get along. This then hampers critical thinking.

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

Negotiation and integration to solve problems
Integration is one possible method of handling dysfunctional conflict. It is a suitable approach to resolve conflict that exists due to misunderstanding, but is not suitable when the root of the conflict lies with differences in value systems.

Smoothing:
This is mostly a temporary method of solving a conflict situation as differences are ignored and the focus is placed on what people have in common. The conflict situation is "smoothed over" but if it is a serious problem it may actually make the

situation worse. The short term solution to the problem may lead to the conflict surfaces again in the future.

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

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

Compromise:
This democratic style of handling conflict is found in a situation where there are opposing opinions on an issue but both parties have equal power. It is a situation of mutual give-and-take but if it is not managed well it may lead to a situation where deadlines are not met because it is easier to simply withdraw or give in. If one person is constantly expected to yield or compromise he may decide it is better to (at least psychologically) withdraw from the situation.

Possible outcomes of conflict determined by (inter alia) management skills
Positive:
- Conflict may help to create an awareness of a problem that can then be addressed to the benefit of the business.
- Conflict may stimulate creative thinking.
- Conflict may help people to understand a problem better or to learn from one another.
- Conflict may lead to collaboration where the focus shifts to working together by encouraging ownership and commitment in a team.
- Conflict may motivate people to give input and to get involved or to participate in a situation where they previously felt apathy.

Negative:
- Unless the conflict is managed to create positive spin-offs it may hamper productivity and lower morale.
- Negative conflict may lead to inappropriate behaviour such as violence due to feelings of confusion and frustration.

Conflict Management through Third Party Interventions:

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

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

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

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

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

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

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