NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY 2014

BUSINESS STUDIES: PAPER II

MARKING GUIDELINES

Time: 2 hours | 100 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

- The following aspects may be considered when marks are allocated in this paper:
- Format:
  - The **CORRECT** format for each question must be used, i.e. Business report.
  - Where applicable, include an introduction and conclusion.
  - Use headings and sub-headings where appropriate.
- Terminology: Correct Business terminology should be used.
- Content: Must be sufficient to cover all aspects of the question.
- Substantiation: Justification for statements made.
- Application to case study/context.
- Creative problem solving rather than just giving theoretical facts.
- Synthesis and sequencing.

QUESTION 1

Corporate Social Responsibility (max 35 marks)

Definition
Social Responsibility encompasses more than just obvious ethical issues such as honesty and integrity in business dealings. **Social responsibility** can be defined as management's obligation to protect and promote the welfare of **all stakeholders** (financially or otherwise). **Stakeholders** refer to any individual or group of people that have an interest in or that will be affected by a business.

It is impossible to live in South Africa and not be acutely aware of the needs in our society. Even in the cities we are confronted with beggars, street vendors, informal settlements and unemployment. The newspapers and television news programmes carry daily stories of crime, violence, poverty and AIDS.

Various factors have contributed to the need for CSR in South Africa:

1. The inequalities of the past, especially in education, have resulted in a large number of illiterate adults without job-related skills which are necessary to secure employment.
2. As a dualistic economy with a large portion of the population still living in third world (developing) circumstances, we are in the process of growth and building infrastructure and unable to provide adequate housing, medical care or education of an acceptable standard to all citizens at present.
3. Years of apartheid resulted in funds being poured into various political issues ('The struggle') instead of economic issues. Economic boycotts also prevented FDI (Foreign Direct Investment) and strategic imports from reaching our shores, which have had a detrimental effect on the economy which we are still experiencing today.
4. South Africa has limited water supplies with only about 12% of the land being arable. This, together with the concentration of natural resources in specific areas lead to a concentration of the population in smaller areas which results in a strain on already scarce resources.
5. Technological advancement worldwide has resulted in many menial jobs being automated making it very difficult for those without appropriate qualifications to find employment.
6. The 'global village' phenomenon, with increased imports, has resulted in it being cheaper to import many products rather than to produce them at home.
7. It is often difficult to break the cycle of poverty. When entire rural communities are unemployed, and barely eke out an existence, it takes courage for the young generation to break out, seek opportunities for education and break the cycle.
8. Likewise, a culture of crime and violence tends to produce future generations who actively need to break out of the cycle in order to become citizens who can contribute to the economic well being of the country.
9. The crippling effects of the HIV/AIDS epidemic, which has left thousands of families with no parent or adult present in the household to look after them. These child-led families battle to survive as they do not yet have the skills or education to be able to earn enough money for a decent existence, and they often have to give up their schooling in order to attempt to provide for their siblings.

Arguments for and against Social Responsibility:

1. Some of the arguments **in favour** of CSR may include:
   - If the business does not get involved to assist in the solving of social problems, society will encounter social-economical problems which will ultimately have a detrimental effect on the business. Businesses should thus help to improve society by taking a **pro-active** stance.
   - Expertise and resources to deal with socio-economical problems often already exists in the organization and it is therefore the moral duty of the business to lend a helping hand where it can. An example in this regard may be skills in the Training Department that could be applied in the area of Adult Education.
   - If the Corporate Sector gets involved in CSR, it is less likely that Government will enforce the issue through legislation.
   - CSR can help to promote the image of the business and gain goodwill. This can, for example, be done by sponsoring sports events. Social Responsibility and Public Relations are therefore often seen as complimentary to one another.
   - CRS is not only about "good deeds" but making a difference through job creation and improving the general standard of living of the community. This will only be the case if the CSR initiatives are sustainable.

   Some of the arguments **against** CSR may include:
   - Providing goods and services that meet the needs of consumers is, according to some, already socially responsible.
   - Shareholders are the only real stakeholders in the organisation because they invested financially and therefore the business should only be accountable to shareholders in terms of the bottom line (profits). CSR means the business is spending money without real benefits in terms of Return on Investment (ROI). It only gains positive public exposure that is often hard to measure and quantify.
   - Employees are remunerated according to how well business targets are met and having to spend time on CSR distracts them from their real responsibilities.
   - Spending money on CSR means the business has to recover it somehow and this will lead to higher prices and inflation which has a negative impact on the economy.
   - When businesses get involved in CSR it may create expectations with the people of the community and it may have devastating results if their expectations are not met. This may be especially true if the business does not perform a decent needs analysis or take the trouble to learn what the community really need on the short term AND long term.
   - One of the critiques on CSR is that is does not always lend itself to sustainable developments in communities. Unfortunately this is true for many CSR programs that are not well thought through and not aimed at long term results in a community. Some organisations follow a hit-and-run approach of getting involved and getting out. The JSE evaluates companies' sustainable social involvement in communities in terms of aspects such as poverty relief, Social Upliftment, human capital development and health and safety issues.

   The organisation's **broader social responsibility** includes activities aimed at the local community as well as the country as a whole.

   The broader community expects the business to familiarise itself with and to contribute to issues such as:
   - Ecological control and nature conservation without harming local communities. Refer, in this matter, to the impact of game reserves and National Parks on the local communities in terms of job creation but also to the fact that the local community no longer have access to the land that is now part of the Park.

- Sponsorships for sports activities.
- The creation of infrastructure. This is not only the responsibility of government but the private sector also has to contribute. South Africa has many examples of such PPP's (Private-Public Partnerships).
- Broad Based Black Economic Empowerment (BBBEE)
- Upliftment of the poor through training and development initiatives such as ABET (Adult Basic Education and Training) to improve literacy rates.
- Health and safety.
- AIDS prevention and treatment.
- Anti-drug abuse campaigns.
- Air (factory emissions), Water (pollution by mines), Noise pollution (especially near living areas). It is interesting to remember that the Government has policies and legislation in place to deal with these issues, but often lacks the manpower to enforce, with the result that it becomes a moral responsibility of the corporate sector to act in a socially responsible manner.

Investment options **(max 35 marks)**

Cash – low risk
Cash is the one investment from which investors can never hope to make a fortune, although it can safeguard them against losing one. Cash investments, including bank deposits and money market accounts, offer investors the assurance of a regular interest income and knowing their capital will not be subject to huge external fluctuations. But cash also carries risk. There is no guarantee that the capital sum will be protected against inflation, as this investment does not have any interest growth potential.

The option of cash
Cash has always been seen as a fairly safe investment. Today we realise that you cannot just put your money away and forget about it, because inflation will erode its value.

If you want a stable, low risk income, a bank deposit is still a valuable investment option. However, money market funds have become a very popular alternative since they were introduced in South Africa in 1997.

A money market fund is a type of unit trust that invests in interest-bearing instruments issued by banks, the government and companies when they want to borrow money. These short-term instruments are traded on the money market, and have a maturity of less than 12 months. Money market funds have major advantages in comparison with some other investments. For example:

- You gain access to money market instruments even though you invest only a small amount.
- The interest rate is higher than for a bank deposit.
- You can withdraw your money at any time, like a call deposit at a bank.
- Interest rate risk is largely eliminated because money market funds are allowed to invest only in instruments with an average term of not more than 90 days.

Property – moderate to high risk (often depending on the economic climate)
Property is often the biggest asset in an investment portfolio. Property can keep up with inflation and can be a very effective way of gearing (borrowed to own capital) your investment. This means that by using external financing, investors can increase the return on their investment (make a profit out of the borrowed money which is referred to as a positive leverage effect). Debt in the form of a mortgage bond can help investors acquire an asset – and a return on this asset – they would not otherwise be able to afford. This risk of property, however, is moderate to high (depending on the economic climate).

Much also depends on the location of the property, the economic and political environment. Contrary to the traditional theory on returns, the South African economics environment in recent years has been such that the property market has achieved greater returns than equities due to the property boom. One big drawback of this asset class is its lack of liquidity, i.e. the fact that investors cannot sell property as quickly as investments in other asset classes. For that reason the safest option is to own a home, but to leave property speculation to the experts.

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

Equities – high risk
An investment in equities (shares or stocks) means that investors have obtained part-ownership in the company whose shares they have bought. Some companies are listed on a stock exchange, which means that shares can be traded freely on that stock exchange, e.g. JSE Ltd in South Africa.

Although equities are a high-risk asset class, they have the best chance of beating inflation over the longer term if investors have invested in blue chip shares (major, stable companies).

Investors with high risk profiles should keep a significant proportion of their portfolio in equities. Basically, the longer the time before retirement, the more you should invest in equities.

Diversification
Most investment plans should include a combination of the four major asset classes because of the benefits of diversification. Diversification means spreading the investment risk between the various asset classes. In other words, not putting all your eggs in one basket.

Investors who are prepared to hold a combination of equities, bonds and money market instruments stand a greater chance of higher returns over the long term than those who invest only in conservative investments such as cash. By combining the growth potential of equities with the higher income of bond and the stability of money market funds, investors are employing a sound strategy to control the balance of risk and reward in their portfolio.

Unit trust
A unit trust is a group of investors who 'pool their capital' to invest in financial markets.
Instead of buying and owning shares or bonds yourself, you buy units in a portfolio of shares or bonds, hence the word unit trust.

One investment strategy that can be applied is known as 'Rand cost averaging'. This means that a fixed amount of money is invested in the same investment at regular intervals, regardless of market conditions. In effect this will mean that when the price of the financial instrument is low, the fixed amount can buy more units while a higher price will result in less units being purchased with the fixed monthly investment.

Unit trusts are divided into three broad categories, namely:
- Domestic funds, which invest a maximum of 15% of their assets outside South Africa
- Worldwide funds, which invest between 15% and 85% of their assets outside South Africa and
- Foreign funds, which invest more than 85% of their assets outside South Africa.

Kruger Rands
Kruger Rands are very popular in South Africa and have been known to deliver good returns at times. The rand value of a Kruger Rand is determined by the combination of the US dollar gold price and the rand/US dollar exchange rate. The value is therefore highly volatile and you should

realise that Kruger Rands are high-risk investments. Here are some of their advantages and disadvantages:

Advantages
- Substantial capital gains can be made over the medium to long term.
- There is an active, broad market, so it is a fairly liquid investment.
- It is homogeneous product and therefore no real investment expertise is required.

Disadvantages
- Values are volatile and can fall substantially in a short period of time.
- No regular income can be earned.
- Kruger Rands can be costly to store.

Collectibles
An investment in collectibles such as coins, diamonds, stamps, art and antiques has the potential of capital gains over the medium to long term. Another attraction is the large and active international market for collectibles. Unfortunately, there are also disadvantages associate with some of these investments:
- The most important disadvantage is the fact that investors earn no monthly income from collectibles.
- A high level of expertise is required before you can trade in collectibles for profit.
- Collectibles are often expensive and have volatile capital values, and the South African market is rather limited for some of these items.
- Art and antiques are difficult to value and to transport safely. While stamps can easily be transported, they are also very fragile and can equally be easily damaged. They are easier to value, however, as information on stamps is readily available.

Off shore investments
There is no doubt that the level of risk increase if all your investments are in one country. As a prudent investor you should probably have a foreign component in your portfolio.

However, this is not as simple as it seems. A foreign investment is not necessarily a guaranteed winner. You still have to choose which asset classes to invest in – whether these are equities, fixed-interest investments, property or something else.

South Africa's status as an emerging market makes its currency and financial markets more volatile than those of First World countries. This is however not the only reason why prudent investors should include a foreign component in their investment portfolios.
Other reasons are:
- Diversification provides peace of mind: A 'one country- one currency' investment portfolio holds a fairly high risk, similar to an investment in only one share on the JSE.
- Foreign financial markets may offer better value than the South African markets.
- Returns on a foreign investment are determined by two factors – price movements and exchange rate fluctuations. If the investor expects the South African Rand to depreciate, it will be wise to invest in a foreign country.
- International markets offer investment opportunities that may not currently exist locally, for example bio-technology companies and a wider selection of information technology companies.
- Emigration**:** If you are planning to emigrate, you can start investing, especially in property, in the country where you would like to end up living.

Learner must give an opinion on the arguments and either support one argument with a motivation or may give credit to both arguments with a motivation.

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

CRITERIA	0	1	2			MARKS
Format	Not meeting the correct standard	Partially correct format	Correct format			
	0	**1**	**2**	**3**		
Terminology	No use of business terminology	Isolated/ limited use of business terminology	Good use of business terminology	Outstanding use of business terminology		
Content (number of relevant facts)	Maximum 50 facts. Divide by 2 to get mark out of 25. Marks are inter alia given for mentioning the fact, explanations of facts or statements, relevant examples; expansion of acronyms NOTE: Listed facts that are **not explained** = max 4 marks (8 facts)					
Sub-Total:						**/30**

BUSINESS STUDIES PAPER II - HIGHER ORDER THINKING RUBRIC (40% WEIGHTING)

If all SECTIONS have not been completed, the judgment is based on **the amount of expected** information. E.g. A candidate substantiating one section well, but not answering the other cannot qualify for a "majority of statements" mark.

CRITERIA	0	1	2	3	4	MARK
Substantiation (justification for statements made)	No attempt at substantiation	Very limited substantiation.	Less than half of the statements are substantiated.	The majority of the statements are substantiated	The majority of the statements are thoroughly substantiated showing breadth and / or depth of understanding	
	0	**1**	**2**	**3**	**4**	
Application to Context / industry	Superficial reference based on the case study/context given (Just keep mentioning the name of the business repeatedly without relevant examples)	Continuous reference is made to the case study/context given with some applicable examples given	Continuous reference is made to the case study/ context given with **several** examples that are **fully integrated** into the answer	Examples are relevant to the case study/context given and **fully integrated** into the response showing understanding of the issues at hand. **Reference is made** to current affairs.	Examples are relevant to the case study/context given and **fully integrated** into the response showing understanding of the issues at hand. Current affairs are **fully integrated** into the response.	

	0	1	2	3	4	5	6	
Creative Problem Solving	No understanding of the problem and no solution given.	Identification of the problem and an incorrect solution suggested	Identification of the problem and a poor solution suggested	Understanding of the problem with ONE solution which is not explored in depth.	Understanding of the problem, with MORE THAN ONE solution discussed in limited detail **OR** Understanding of the problem, with ONE viable solution discussed in depth	Good insight and understanding of the problem with MORE THAN ONE solution of which at least one has to be discussed in depth.	Good insight and understanding of the problem with solutions offered which are fully discussed, showing breadth **and** depth of understanding	
Synthesis	None of the criteria as listed below are met	At least one of the criteria fulfilled	Any two of the criteria fulfilled	Any three of the criteria fulfilled	Any four of the criteria fulfilled	Any five of the criteria fulfilled	All six of the criteria are fulfilled	

1. Introduction – don't just re-write question, but shows an understanding of the 'link' between the topics

2. Conclusion – this should be a logical affirmation of the points raised

3. Flow of thought, i.e. paragraphs leading into one another

4. Integration of topics given in the question

5. Integration of question with other Business related topics to enhance the quality of the answer

6. Argument are developed

SUB-TOTAL	**/ 20**

TOTAL

_______________/30 + _______________/20 = _______________50

QUESTION 2

SWOT analysis **(max 35 marks)**

Marks will be allocated for explaining the concept SWOT analysis first. (Max 4 marks)
- Strengths and weaknesses = Internal and can be controlled by Nedbank
- Opportunities and threats = External and cannot be controlled by Nedbank

Learners will consider the aspects mentioned below and based on their experience, discuss each as a positive (strength in the internal environment or opportunity in the external environment) OR negative (weakness in the internal environment or threats if it occurs in the external environment). It is impossible to give a detailed discussion on each of the elements below as this will become a Business Studies textbook rather than a marking guideline, so aspects will only be mentioned rather than discussed in full depth.

Issues that could be raised in the Internal environment, i.e. under strengths or weaknesses include:
- Purchasing function (All equipment, consumables, uniforms needed to keep the bank functioning)
- Financial function (obtaining capital by issuing shares, Nedbank being a Blue/Green/Black chip share)
- Human Resources/Human Capital function (Recruitment, selection, staff training, retention, performance appraisals, remuneration)
- Marketing function (Product, price, place, promotions, people, physical characteristics, perceptions, processes)
- Public Relations function (Proactive and reactive)
- Administrative function (Computer systems to make sure the bank is online, accurate records of customer details for FICA)
- General Management function (Management tasks and competencies, leadership styles as they will apply in different situations)

Issues that could be raised in the External environment, i.e. under opportunities and threats include:

In the Market Environment
- The level of rivalry in the market (other banks);
- The availability of substitute products (micro lending, retailers offering credit);
- The threat of new entrants that may join the market (maybe international banks branching out into RSA);
- The power of suppliers (SARB); and
- The power of buyers (customers)

In the Macro Environment

- Political factors: Government stability, corruption, government spending, nationalisation, land reform
- Economical factors: Inflation, exchange rates, growth rates, unemployment, savings
- Ethical factors: lending to people involved in unethical activities, money laundering, lending to businesses with no CSR policies, ecological considerations if a loan may lead to development at the cost of the environment
- Social/Socio-Economical factors: demographics, levels of education, life styles, health, social mobility HIV/AIDS, BBBEE, skills development
- Technological factors: computer systems and technological advances, cell phone banking, mobile apps
- Legal environment: legislation e.g. LRA, BCEA, SDA, OHSA, BBBEE, taxation, FICA
- Environmental factors: recycling, nature conservation, pollution
- Physical (Infrastructure): Location, ease of access, e.g. roads.

Strategies **(max 35 marks)**

Depending on the issues identified, the learner may discuss any of the strategies below (or additional plans of action) to address weaknesses or to eliminate threats. Some of these strategies could also be used to capitalise further on a strength or opportunity.

Corporate strategies:

1. **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).

2. **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.

3. **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, e.g. ABSA.
   - 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:

1. **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.).

2. **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.

3. **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.

Intensive Strategies:

1. Market Penetration – aimed at giving the business a greater percentage of the market share. Done through pricing, marketing and other innovations.
2. Product development – attempts to develop new products for an existing market as conditions are known.
3. Market development – develop a new market for an existing product on service. May be a geographical or untapped segment of the market.

Other strategies:
- Revise business mission
- Establish or revise objectives
- Allocate resources differently
- Total Quality Management (TQM) and Total Customer Satisfaction
- Benchmarking
- Financial ratios (solvency, return on investment/profitability, liquidity such as current ratio and acid test ratio)
- Performance appraisals (360°) and self-evaluation
- Sampling and inspection
- Continuous Skills Development
- Any other valid strategy

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6. Arguments are developed

SUB-TOTAL	**/ 20**

TOTAL

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