

Leaving Certificate Business Higher Level 2002

Notes accompanying Marking Scheme

Section 1 – Short Answer Questions –80 marks

1. Arbitration

Arbitration is where the settlement of a dispute (conflict) is sent before one or a group of independent (impartial) persons for adjudication.

The parties to the dispute agree in advance to the arbitration process and that the arbitration decision will be binding on them.

The main type of disputes dealt with by arbitration are ones that concern:

- The conditions of general contracts. e.g. travel agents with customers for holidays, building contracts for houses, etc.
- Industrial relations agreements between (employees) trade unions and employers.

2. Types of Industry

- Primary. Extractive. Supply or obtain food and raw materials. Agriculture, forestry, fishing, mining,
- Secondary. Manufacturing, building and construction. Food processing, Electronics, chemical and pharmaceutical, Building materials, development of the physical infrastructure , roads, bridges etc.
- Tertiary. Service industries. Public Utilities eg. Electricity, Gas, Water etc. Transport, Communications, Distribution, Financial, Catering, Entertainment etc.

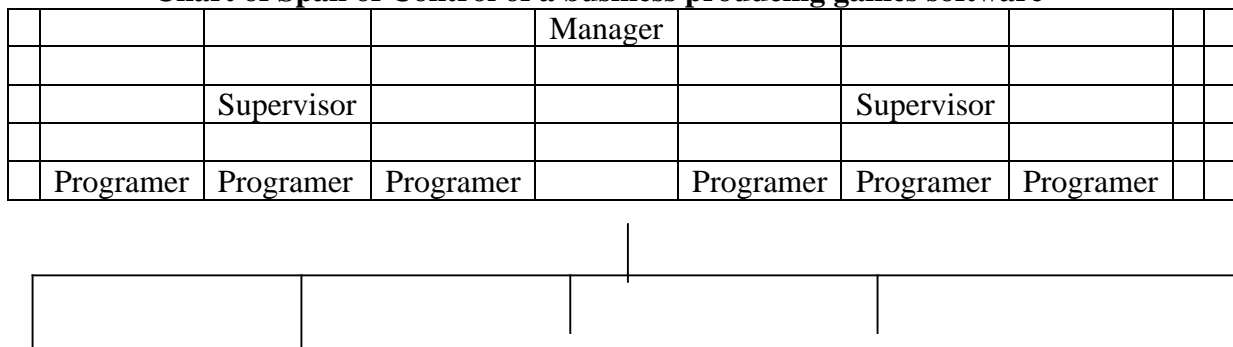
3. Gross margin/Profit. Sales minus the Cost of Sales is the Gross profit of a business. Located in the Trading section of the Final Accounts.

Gross Pay. Earnings before all deductions are made. Normal pay plus any overtime.

4. Span of Control

A span of control is the number of subordinates who are delegated authority and report to the delegator ie. to the supervisor or manager. By simply counting the number of subordinates reporting directly to a supervisor the size of the span of control is worked out. Typical = Line, Line and Staff, Matrix etc.

Chart of Span of Control of a business producing games software



5. **EDI** Electronic Data Interchange helps business to:
Reduce the costs of paper records for transactions
Reduce the costs of time by personnel through use of computers
Retain important customers
Reduce the costs of processing transactions and
Reduce the risk of error

6.
1 – D 2 – E 3 – C 4 – B 5 - F

7.
CAP: Common Agricultural Policy
PLC: Public Limited Company
EU : European Union
ROI : Return On Investment
PRO: Public Relations Officer

8. Performance Appraisal

The design and development of appraisal systems (to judge the quality of) i.e. putting a value on employee performance, is now a central function of HRM. Most organisations relate reward i.e. salary scales and bonuses, to how the employee performs in the organisation.

9. Deregulation

The reduction of the regulation and interference by government on business activities. The encouragement of a free enterprise culture and the opening up of economies to outside influences. The transformation of centrally controlled economies into market led economies.

Removing protection - allowing competition in the market – Taxi sector, Air travel etc

10. Memo:AGM

Memo (Memorandum)

To: All Shareholders

From: Company Secretary

Date: 12-09-2001

Re: Notice is hereby given that the 35th Annual General Meeting of Tree Product PLC will be held in the Company offices, Main Street, Dublin on 13-11-2001 commencing at 02-00pm. The agenda is enclosed.

Signed: Paddy Kelly. Company Secretary.

Section 2. Applied Business Question (ABQ) – 80 marks

(a) Employer and Employee Relationships

The quality of the relationship between employers and employees is the main element in the quality of industrial relations between the parties. If the relationship is good then the climate of industrial relations will be good. There will be high morale among staff.

The importance of good **Employer and Employee Relationships**

- Greatly improve the service to customers, which is most important
- Give the worker the opportunity to improve existing skills and acquire new skills and experiences.
- Improve staff motivation. Allow employees to influence business outcomes. A sense of achievement is experienced.
- Improve morale and reduce stress. Employees have control over how they work, they are not being dictated to.
- Make the workings of the organisation more effective. Employees work using their own initiative and without regularly seeking permission and/or advice from managers.
- Employees cope and react well to a constantly changing business environment. Without tight controls and checks they have the trust of their superiors to use their skills and knowledge.
- Increased Sales and Productivity. Improving the organisation.
- Decreased Staff turnover, absenteeism etc.

The **HRM** department can help good employer / employee relationships by ensuring:

- Open Communications.

All managers and employees should have access to, and be supplied with, all information on the success or otherwise of the organisation, whether the organisation is succeeding or failing is relevant to all the stake-holders (the people interested in its success). Managers should try to meet the employees face to face eg. frequent meetings with trade union officials, worker representatives, shop stewards, etc. trusting relationships are formed.

- Employee protection and Health and Safety.

- An employer/employee agreement on all important issues.

Agreed procedures in all possible conflict circumstances, e.g. promotion, redundancy, grievances, etc., should be established and used to tackle each problem. Employees are major stake-holders in the organisation and should be recognised fully eg. by establishing profit-sharing schemes or employee share ownership schemes, etc. Rewarding employees justly.

- Valuing employees.

The organisation must regard the employees as assets. The dignity of the employees is important and they should be treated fairly and with respect. All employees have access to the senior management for consultation and an appeals procedure that would focus the attention of the parties in a dispute to solve it at the lower level.

- Recruitment. Manpower Planning

The recruitment policy of the organisation must be careful to select people who will fit in and are flexible, possess good interpersonal skills and can use their talents and initiative in situations that demand it ie. the most able and suitable personnel are recruited.

- Training and development programmes.

For both new employees (induction) and present employees, training must be available and built into the reward system of the organisation. Programmes might cover quality standards, problem solving and procedural rules for safety, etc.

- Management training and development programmes.

These can result in well-motivated and competent managers. Possible difficulties should be anticipated and dealt with quickly before they grow into serious industrial relations problems. A management with a sensitive and understanding approach to people problems will be most successful.

(B) Methods of Expansion

Inell – Profile.

Well established brand in Ireland; Good technically qualified and enterprising employees; Possible expansion at home through diversification; Development of new products for domestic and foreign markets possible.

- **Growth**

Make use of existing knowledge of the product range and the market to expand the present enterprise. Increasing sales in Ireland up to the maximum that the present business is capable of and at the same time increasing profitability and getting new customers through spreading geographically and expanding the product range especially if there is demand that is not presently being met.

- **Diversification**

The product mix of the business is widened and added to. Inell might diversify by merging/buying a business with complementary product lines or it might produce a product similar to the competition's one or it might create a completely new product for the market. Spread risk and protect profitability.

- **Set up a new complementary business to the existing one.**

The new business would be separate but would help the first by having a related range of products or services, e.g. Inell might set up a business to design and construct machines for the building industry. It may be possible to use some of the same resources and skills in both businesses, thus increasing efficiency and cost effectiveness.

- **Buying a Business**

The new business may already be well-established in a good location, have the necessary equipment, trained employees, a good order book full of customers and a recognised track record in the desired type of trade.

- **Business Acquisition/Takeover**

A takeover is where one enterprise purchases a second enterprise usually by acquiring a majority of the equity (voting) share capital. A merger is where the parties to the 'marriage' agree voluntarily to the union of the two businesses. Acquiring competitors in

the European market may be an expensive method of growth but access to markets is very quickly achieved.

- **Strategic Alliances and Joint Ventures**

Some businesses form marketing alliances with other businesses, both at home and abroad. The enterprises remain separate but may agree to a product/service alliance where:

- They market each other's products in different market segments or distribute each other's goods to customers.
- They might agree to service each other's products and customers.
- They might produce certain products or parts for products under licence.

A promotional alliance is also possible where one business promotes another enterprise's products, e.g. a European distributor promotes the Inell brand in Europe. A distributorship or logistic alliance involves one business offering its storage and delivery facilities to another's products.

Inell could form a strategic alliance/joint venture where it would take an equity stake in a foreign business. In this way local knowledge is acquired, new products added to range, an association is established with an internationally recognised business and an opportunity provided to enter new foreign markets.

- **Licensing - Franchising**

The licensor makes an agreement with a local licensee, i.e. an enterprise operating in the local market already, giving the right to manufacture a certain product or use a certain process in the manufacture of a product. In return for granting the licence allowing the local enterprise the right to produce and market the product, the licensor is paid an initial fee plus agreed percentage royalties. e.g. Inell might licence a business to produce particular product lines for a particular market.

(C) Social Responsibilities of Business

Inell recognises that it has important social responsibilities and duties which are a cost and a benefit to the business.

- **Employees**

Inell's employees have a right not to be exploited. It has both a responsibility not only to create employment but to maintain and secure jobs wherever possible. Inell must provide a safe working environment, fair wages and conditions, professional development etc. for employees.

- **Customers**

The customers have a right not to be exploited. Inell must avoid producing products that are unacceptably dangerous or a high health risk. Certain business practices may be bad for customers, e.g. restrictive practices may push up the price of goods and result in excessive monopoly gains.

- **Society – Community**

It is in the interests of society and of business to resolve any conflicts that may arise between them and agree a balance between the goals of business and those of society. Eg. is there a level of pollution, health risks or destruction that is acceptable to the community? The creation of jobs in business enterprises gives a boost to the local economy: employees require houses but there will probably be less green areas, more traffic congestion, noise, delays, litter and parking difficulties.

- **Government**

Social duties can be imposed on business by law e.g. planning and environmental regulations, health and safety laws, company laws, competition legislation, consumer and advertising laws, etc. Business has a responsibility to abide by the laws of the land.

- **Environmental Issues – Recycling**

The natural environment are the ‘surroundings for living things’. Some of the most sensitive environmental issues include damage to the ozone layer and CFC gas emissions, oil leaks and spillages, chemicals, global warming, acid rain, irresponsible incineration, use of fertilisers and pesticides in agricultural production, other dangers in the food chain, dumping illegally, waste minimisation and the protection of rare ecosystems.

In Ireland, sensitive issues include emissions from industrial plants, waste disposal, e.g. tip heads and the use of waterways, emissions from fuel use, e.g. cars, noise, noxious odours and recycling of paper, glass, cans, etc.

Inell must consider the notion of sustainability in regard to its products, i.e. ‘the capacity to consume a particular resource indefinitely’. It is obvious that some resources are not sustainable, e.g. oil and mineral resources, but Inell must focus on producing products that respond directly to market demands and one of those demands is sustainability.

- **Shareholders/Owners**

Inell has a duty to the owners of the business, the shareholders. It will try to satisfy the shareholders needs by creating wealth in the forms of profits and to pay the highest dividend possible, i.e the highest return on capital.

Section 3 – 240 marks

(Part 1)

Question 1 – 60 marks

(A) Producers/suppliers are the makers, manufacturers and suppliers of goods and services. The producer makes goods that satisfy consumer wants and needs, e.g. cars, domestic appliances, etc. Producers want high prices and profit. Producers are interested in the product to produce, the quantity of it to make and the price to charge for it. Interest groups may affect these producers interests.

Consumers

Consumers are the users or purchasers of goods or services from business enterprises. They consider price, quality and service in their decision to purchase. Enterprises pay particular attention to customer needs.

Interest Groups

Interest groups are groups that wish to influence the political and decision-making process but are not part of the accepted political structures. They are groups who put pressure on government and the EU to accept their position on an issue. They can cause bad publicity for the business. This can increase costs as more advertising is needed to counter the bad publicity. The image of the business may be damaged resulting in a fall-off in the demand for its products.

Examples: Promotional pressure groups e.g. Greenpeace (environmental protection), The Consumers Association of Ireland, etc.

Entrepreneurs

An individual or a group of people who undertake the risk of establishing and running a business are known as entrepreneurs. The risks the entrepreneur takes cannot be insured against. They follow through on ideas and take the chance of failure. They take the risk of organising all the resources necessary to provide a product or service. They not only see an opportunity, e.g. a new product or service, but they set out to exploit that opportunity. Entrepreneurs are in business for themselves and their personal profit, the reward they get for their ambition and drive. They usually make all the business decisions and rely on their own good judgement.

Intrapreneur – Manager

The intrapreneur engages in entrepreneurial activities eg. coming up with new ideas and turning them into profitable activities, from inside an organisation. An intrapreneur would therefore work for an enterprise/organisation e.g. a transnational company or a government department etc.

Investors

Entrepreneurs usually need capital to develop their ideas and this is where the investor comes into the picture. Since all the profits go to entrepreneurs they are motivated to organise the capital by contacting an investor(s). An enterprise needs money to finance its activities. Investors make money available to an enterprise, i.e. they risk funds in a project that may or may not profit them in the future. The money is used for the purchase of assets and to finance the enterprise, initially and on ongoing basis. Investors can be banks, grant agencies etc.

Employers

People who employ people to work for them for wages. Responsibilities include having fair discipline, providing safe work environment, equal opportunities and compliance with contracts.

Employees

Employees work for other people, producing goods or providing services. Their rights include the receipt of reasonable wages, safe working conditions, trade union membership and a contract of employment. Their responsibilities include honest work, compliance with reasonable directions and compliance with agreed conditions of the contract.

(B) Co-operative and Competitive relationships

Co-operation

A co-operative relationship exists where joint action or effort is required so that people can work together to everyone's benefit.

- Employees helping each other in a spirit of teamwork to achieve a certain level of sales or profit for an enterprise.
- One business co-operating with another business in the marketing or distributing of each other's products or services
- Businesses sometimes get together and co-operate with each other in local areas to encourage economic development and the to create jobs which benefits the whole community.
- Employees co-operate with their employers. They agree pay and working conditions and produce goods and services for customers.
- They may also co-operate with each other by consulting each other and making decisions together e.g. worker representatives on the board of directors.
- The relationship between the owners of the business and the investor must be one of co-operation to ensure that both of them gain.
- Producers listen to their customers and co-operate with them to supply the goods and services that are needed and wanted by them. Customers trust their producers to supply them with high quality goods at prices they can afford.

Competition

All interests compete with each other in the business enterprise and businesses are always in competition with other businesses for sales, the recruitment of labour and in the price of goods and services. Competitive relationships within an organisation might be where:

- Salespeople compete with each other for orders.
- Employees compete for promotion or departments for cost savings.
- Areas like price, quality and service are common areas of competition between business enterprises who are competing with each other for market share
- Consumers are interested in the best value for money possible. Suppliers and producers are interested in having customers buying at the right price.
- The government is interested in collecting taxes and keeping employment levels high.
- The trade unions are concerned with working conditions and pay rates for their members.
- The employees of the enterprise and interest groups may be interested in possible damage to the environment, health risks, etc.

(C) The Labour Relations Commission

- To provide a conciliation service. Conciliation is a procedure by which parties in dispute can meet to sort out their difficulties with the help of a third party

- To provide an industrial relations advisory service. The Commission offers advice to employers and unions on industrial relations practice in general or in a particular employment.
- To offer guidance on codes of practice but only after consultation with union and employer organisations such as ICTU and IBEC. The codes of practice are not enforceable, but they can be taken into account by an equality officer or a rights commissioner in deciding an issue.
- Nominates Rights Commissioners
- Appoints Equality Officers and Staff
- Assists Joint Labour Committees/Joint Industrial Councils
- Industrial Relations Research – Monitors developments in industrial relations matters.

The Labour Court (LC)

- The Labour Court investigates industrial disputes and issues recommendations for their settlement.
- In general all disputes must first go through the Conciliation service of the LRC. The Labour Court may only investigate a dispute if it receives a report from the LRC that nothing more can be done by the LRC to resolve the dispute. The LRC must waive its function of conciliation.
- Due to the principle of free collective bargaining the Labour Court's recommendations are generally not legally binding on the parties to the disputes. The agreement and solution must come from the parties themselves.
- If both sides to a dispute request the intervention of the Labour Court and agree to be bound by its recommendations then the Labour Court determination is binding on both sides.
- It acts as a court of appeal, e.g. it hears appeals on the recommendations of rights commissioners and equality officers.
- The Labour Court registers 'Employment Agreements' ie. employment deals negotiated by both sides in an enterprise or an industry and registered with the Labour Court. Once registered, the provisions of the agreement become legally binding and the Labour Court issues a legally enforceable order.
- Interpret Codes of Practice.

Question 2 Transnational and State Owned companies. Business Ethics and Business and the Economy –60 marks

(a) Transnational company

One which is structured on a global basis. It possesses (owns through shares) and controls (through management) the means of production or services outside the country in which they were established eg. a company with shareholdings in many overseas subsidiary companies. Examples: Intel, Coca-Cola, Nestle, Siemens, IBM, Volkswagen, Unilever, Shell, Jefferson Smurfit etc.

Ireland tries to attract these large organisations to locate factories here for the following reasons:

- When a large new manufacturing firm is developed in the country it brings an inflow of foreign investment into the economy. This creates jobs for the construction industry, for the employees in the plant and in all the services provided to the manufacturing facility.
- The level of imports of manufactured products is reduced. This benefits the economy as a whole because goods which were not up to now made in the country are readily available in the local economy.
- The level of exports will be increased greatly. The Transnationals almost certainly sell all their products into overseas markets. In fact, they may be selling the majority of their products to other firms owned by them in other countries.
- Because of the presence of huge businesses in the local economy, competition between firms and economic activity within the country is stimulated and encouraged. These competitive forces have good effects on prices, efficiency and innovation.
- Production by transnationals increases the country's Gross National Product and thus increases the standard of living for all people living in the country. The Government will be able to collect more taxes to pay for social services and further economic development.

State Enterprises

The Irish government and its agencies own a large number of important business enterprises in the country. These enterprises are called 'public corporations' or more often 'semi-state bodies' because the State has a direct interest in their operation, e.g. the Department of Transport, Energy and Communications owns and controls Aer Lingus, the national airline.

Ireland has these large State-Owned Enterprises for the following reasons:

- To avoid the possibility of wasteful duplication of services e.g. if the country had three electricity companies, all in competition with one another, for a market that only one could easily supply.
- Some of the services that the State businesses provide may not be profitable for the commercial company and therefore would not be provided. The State sets them up and runs them in the common good, e.g. the national postal service run by An Post. The supply of electricity, gas and water to all remote areas of the country is viewed as having a social dimension and is expensive. The provision of the services is capital intensive and not profitable in the commercial sense.
- To protect employment and to create employment. The State-owned enterprises sector in Ireland employs many thousands of people.
- To protect and strengthen industries that are deemed to be important to the country. It is vital that the infrastructure of the state be well maintained since it is the backbone of a successful economic system. The economic infrastructure includes the national transport network, energy supplies for industry and domestic purposes, water supply, telecommunications networks, etc.

- To benefit from very large-scale production facilities that can be financed by the State. With a State-owned enterprise being the only supplier, prices are likely to be low because of state subsidy.

(B) (i) Ethical Business Practice (Business Ethics)

Ethics are moral principles or rules of conduct generally accepted by society. They form guidelines as to what should or should not be done in certain circumstances. Business ethics are concerned with value concepts like what is good, bad, right, wrong, truth and justice eg. in areas such as fair competition in the market place, social responsibility, pollution control etc.

Ethical Business Practice involves conducting business guided by a set of moral principles that govern the action of an individual or group. These guiding principles lay the foundation for the way a person will act in a given situation e.g. a person will not conduct themselves in a certain way (eg. do something) because they know it to be wrong.

(ii) The Impact of Business activity on the development of the Economy

- **The Creation of Wealth**

Business activities, which are employed in the primary, secondary and tertiary sectors of the economy, produce, distribute and sell goods and services to society. The needs of individual and business consumers are met. Wealth is created by adding value at every stage. Wealth is used to create more wealth.

- **Work – Redundancy**

Jobs are created in all sectors, e.g. agriculture, factories, offices, transport, etc. By paying the bills incurred in operating the business, e.g. materials, energy, professional services, etc. further jobs are created.

- **Income**

Income is generated by way of profits, wages and interest. Employees, directors and entrepreneurs are rewarded for their efforts. Living standards are improved greatly.

- **Innovation**

New products and services are developed and value is added all the time. New businesses are created and financed. Innovation is fostered.

- **Government Services**

The welfare functions of government are supported by the wealth created by business enterprises, e.g. government taxes are paid and used for education, health and social welfare.

- **Social and Community development.**

Charitable and community projects both on a national and local level are supported. Entrepreneurs and employees provide time, expertise and money to these projects.

- **Future Development**

The cycle of business activity is sustained by the reinvestment of businesses surpluses in the business. New premises, plant, equipment and machinery are provided for the future development of business.

- **Security**

Reserves are accumulated. Loans are repaid and further loans are taken out. Reserves and savings are built up to provide for future needs.

- **Environment – Pollution etc.**

Question 3. International Trade and Global Marketing – 60 marks

(A) Significance of International Trade for the Irish Economy

- **Increased World Output**

The economic output of the world increases because each country dedicates itself to producing those commodities in which it is efficient, e.g. food production in Ireland. Countries must import commodities that they cannot produce themselves, e.g. essential raw materials such as oil, steel, hardwoods etc. Surpluses are produced which are then traded for the goods that are required. Every economy tends to become richer because of trade.

- **Choice and Variety.**

Every economy and its consumers enjoy a wide choice and variety of goods that are made available for consumption through trade but cannot be domestically produced because of climatic conditions or the lack of essential factors of production. Greater variety is available to consumers, e.g. petrol, types of food, fruit, etc. Consumers usually demand more choice and variety once the standard of living and disposable income of the population increases.

- **Economies of Scale**

Mass, or near mass, production allows for economies of scale to be achieved. Countries with access to capital can be more cost competitive. Commodities such as air transport, automobiles, telecommunications, etc. might prove too expensive if the demand for them was restricted to small domestic markets. The various industries in the economy enjoy the advantages of economies of scale because they are producing for far larger markets than simply the domestic one.

- **Increased Efficiency**

There is an increase in efficiency in production and therefore lower prices for consumers. Trade increases competition. Businesses are encouraged to be efficient because there are opportunities available for growth. By encouraging competition, there is far less risk of

dominant firms taking over the market, e.g. monopolies. If there were no free trade in a particular commodity then the opportunity for a business to control and exploit the domestic market would be greater.

- **Economic Growth**

International trade allows, in small countries, like Ireland, with small home markets, export enabled growth in the economy to take place. It provides foreign markets for produce that cannot be sold at home. By selling abroad, foreign currency is earned which in turn is used to finance further trade.

- **International Co-operation**

On a political level, countries that have close trading links with each other often develop cultural and friendship links that help international co-operation and restrict the possibility of political and military conflicts. This fostering of links between countries lessens the possibilities of war.

- **Competition**

New and infant industries are expected to trade competitively with foreign industries from the start. They are provided with no government protection at the initial stages of development. The level of domestic employment may be adversely affected by open competition.

- **Development of Human Resources**

The further training and development of the Irish workforce to meet the challenges of the new market situation is stimulated, e.g. technology, language and marketing skill development in the population.

- **Dumping**

The economy may be the victim of 'dumping', i.e. other countries may attempt to sell their over-production on the Irish market at an uneconomic price. This would damage native industry. The World Trade Organisation bans the dumping of commodities.

- **Costs**

Ireland is an island and the costs associated with distribution, labour, raw materials, scale of production facilities etc. are high. This reality is not going to change so the emphasis of Irish business must be on high quality products and services for sale abroad.

(B) The Global Marketing of Products and Services.

Globalisation means that the world is increasingly becoming one large marketplace. A global business identifies world markets for its products and then produces for that global market.

- It plans and co-ordinates all activities on a global basis.

- It purchases the factors of production and sets up its assembly and manufacturing facilities in any geographical location in the world, and usually in a number of different countries.
- Savings in research and development, distribution, transport, marketing and finance are sought out anywhere they can be found to ensure that costs are reduced and economies of scale are achieved in purchasing and manufacturing operations.
- Examples of global businesses include: Ford, Intel and Singer Sewing Machine Company (SSMC).
- Global businesses do not consider the differences between countries and cultures important. They put all their efforts into satisfying the common desires and drives of people everywhere - global standardisation. They attempt to sell one product in the same way worldwide, focusing all the time on the similarities found across the markets.
- Global marketing. Products are globally marketed under a common world brand name, like Coca-Cola, McDonalds, Sony, IBM and Microsoft.
- Not only is a brand like Coca-Cola found everywhere but the actual product itself is exactly the same in every market, i.e. global standardisation of both brand and product, e.g. standardised CD players, televisions, etc.
- Cost efficiencies are turned into value for consumers. Reliable, high quality products are made available at lower prices. Thus increasing consumption and encouraging further demand.
- The markets of the world are not totally homogenous, i.e. they are not all of the same composition and nature. This fact requires that products must vary to suit the various markets (product adaptation.) The brand might prove to be global but customisation may be needed for the product to meet particular country requirements e.g. left or right hand drive motor vehicles, different electrical and TV transmission standards, local tastes, etc.

Section 3
Part 2
Enterprise

Question 4. Report on Barriers to Communication. Management skills. Organising
– 60 marks

(A) Draft a Report to the Managing Director about the four main barriers to effective communication

Title: Report to the Managing Director of A and B Ltd. on effective communications in the business.

Name: Prepared by J. Burke. Management Consultant.

Terms of Reference: To explain the main barriers to effective communications in the business

The Executive Summary:

For communications to be effective and successful there must be no barriers to the process. Unfortunately, both people and situations cause some barriers to be built up.

Recommendations.

Effective Communication

A and B Limited must have a plan to overcome the following barriers to effective communications:

1. Noise. 'Noise' is any interference from outside the process, which leads to messages being misunderstood or in some cases the meaning of the message becoming completely changed.

2. Source Credibility The likelihood of a receiver believing and trusting in an item of information is said to be directly related to the source from which it comes. There may be in-built prejudice on the part of both the sender and receiver of the communication. Different people have different biases and views.

3. Mistaken Assumptions If the senders make assumptions about the target audience, e.g. that the receiver actually wishes to hear the message, then they should be accurate assumptions, supported by evidence.

4. The Climate of the Organisation The attitudes of the management will influence the communications climate. The success of the communication process depends on the atmosphere in the organisation, i.e. whether it is one of fear or one of trust.

5. Lack of Planning The message may be unstructured, clumsy and lacking in conviction due to lack of planning and preparation. The objectives of the exercise must be decided before the communication takes place, e.g. is the purpose to inform, persuade, advise, share, consult etc? Plan the clarity and delivery of the message and plan to avoid barriers if possible.

The Language Used The language must be suited to the audience. Technical jargon or 'buzzwords' often have different meanings for different people. Suit the language used to the capabilities of the receiver of the message. Use technical jargon only when necessary.

The Media Decide on the most suitable medium for the job in hand, i.e. the most appropriate for the transmission of the message. A medium that combine hearing and seeing may be best because people tend to remember more of the message if it is both seen and heard at the same time. Confidentiality, cost, record required and legal requirements need also be considered.

Check for Feedback Failure to prepare for questions will lead to confusion, lack of credibility and loss of confidence.

Timing The receiver may not be in the best mood to receive the message so the timing of the delivery is often vital. The receiver must be receptive to the messages. Pick the proper moment for the communication.

Detail The amount of detail being transmitted must not be too great. Be brief and to the point. The message becomes confusing due to too much information, e.g. if the layout of the message is unstructured.

Overstatement The sender of the message may overstate it to such a degree that the receiver may feel he/she is being treated like an idiot: but repetition is good for emphasis.

Speed Speed and impatience cause lack of understanding, especially among groups. Deliver the message slowly and clearly. If the receiver gets tired, or loses interest, much of the message will be forgotten. Use visual and other methods e.g. charts, humour, to overcome the risk of wandering of attention or interest.

Acknowledgements
Appendices.
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(B) Importance of Management Skills.

- **Leading**

Leadership allows an individual to positively influence how others behave so that they contribute voluntarily to achieving group goals.

Leadership Styles

Autocratic (Authoritarian)

No consultation with subordinates. All major decisions are made by the leader and orders are issued and directives are made to be obeyed without question. Objectives are achieved through the use of fear and threats.

An autocratic style will in the end fail because it produces a very resentful group of people who will not co-operate and people do not help the leader when help is needed. Usually there is nobody trained or willing to take over from the autocrat.

Democratic

This encourages people to contribute to the decision-making process. People's feelings and emotions are considered important by the leader. Shared solutions to problems are sought, motivation and co-operation levels are very high and there is excellent job satisfaction.

Laissez Faire

The leader allows complete democracy in all matters. There are no bounds to freedom of action and decision within overall objectives.

- **Motivating**

Motivation may be defined as the factors that cause people to act or behave in certain ways. People's behaviour can be influenced (controlled) by motivating them to meet their unsatisfied needs. (1) **Need** (2) **Goal** (3) **Action** (4) **Feedback**.

Maslow's Hierarchy of Needs

The satisfaction of a person's needs begins with the basic physiological needs, e.g. food and shelter. Only after these basic needs have been satisfied will a person attempt to satisfy the next need on the ladder, e.g. safety needs, social needs and so on.

McGregor's Theory X and Theory Y

Theory X

The average human being has a natural in-built dislike for work.

People have to be forced, controlled and threatened with punishment.

Safety and security are sought above all else.

Responsibility is avoided.

Theory X suits the autocratic manager.

Theory Y

The individual does not dislike work. Work is very satisfying.

Strict control over people is not necessary if people are committed to shared objectives.

The satisfaction of self-actualisation, is the best way to get effort from people.

Human beings can be taught to accept and seek responsibility.

All members of the organisation can help solve problems.

Theory Y would suit a democratic style of management.

- **Communicating.**

Communication is concerned with the processes of transferring of ideas, information, messages, etc. from a sender to a receiver with the main purpose being the understanding by the receiver of the sender's message.

Downward Communications

Downward communications. Instructions etc. go from a superior to a subordinate.

Upward Communications

Upward - allow suggestions to be reported to the superior by the subordinate.

Feedback

Everybody in the organisation should have the opportunity to influence decision making.

By seeking opinions through discussion the message is clear: subordinates have a say.

This brings everyone closer together and supports democratic styles of leadership.

Lateral (Horizontal) Communications

Maintained between people with the same level of authority in the organisation. The purpose is to ensure that all sections work together at all times in the interest of all.

(C) Organising

- The formal structure of an organisation is the agreed method by which its activities are co-ordinated so that it has the best chance of reaching its objectives. Organising involves getting things done through some form of organised structure.
- Successful organisations give themselves a structure within which they organise themselves. Somebody must take the responsibility for completing the many jobs to be done. A structure that meets the needs of the people in the organisation is the best one.
- An 'organisation chart' shows how an organisation expects to get things done. The structure will therefore start with those people who are in charge, Moving downwards from these heads of departments to each lower level of responsibility are subordinates, who may themselves have other subordinates answering to them.

- **Line Organisation**

An organisation that is divided into departments made up of line activities ie. activities are essential for the survival of the organisation eg. Finance Production, Sales and Research and Development departments. A line organisation is easy to understand, responsibilities are well defined, there are few communications problems and employees can see the value of their contribution.

- **Line and Staff Organisation**

This is where a staff function is added onto the existing line activities. New departments are created which have specialist expertise to help the line departments to function more effectively. The work of the staff functions is mainly in an advisory and support role, e.g. HRM, ICT, Legal and Distribution, which cut across other departments.

- **Matrix Organisation (Project team structure)**

This is a team based approach to problem solving. The emphasis is on joining together many disciplines in the interest of completing the project. A highly co-ordinated approach to problem solving eg. areas of new product development or major construction jobs where many experts are required and where their work must be co-ordinated. A team leader controls the project and project time is cut, thus reducing costs. It allows for good professional development of managers because of the wide responsibility of work.

Question 5. Business/household. Principles of Insurance. Cash flow forecast – 60 marks

(A) Household and Business Activities – Common

- **Taxation**

Both households and businesses must pay their taxes to the State so income tax/PRSI is common to both. Businesses however must also pay VAT on purchases, capital gains tax on capital gains and corporation tax on the profits earned if the business is a company.

- **Official Forms**

In the case of a household, VAT, Corporation tax and Capital tax forms need not be completed. Both businesses and households have assets to protect, so insurance proposal forms, and in the event of accidents, claim forms, would have to be completed. Loan applications forms are required in both areas.

- **Decision-Making**

Decision-making is a skill that both businesses and households must engage in. Decisions have to be made in the business on methods of recruiting employees, buying and selling and households have to take decisions on who does what in the house, the type of car to purchase and choosing between alternatives.

- **Management Activities**

Households and businesses get involved in the management activities of planning, organising and controlling. Both have to consider ways of achieving desired objectives by planning; making sure a system is in place that allows things to happen by organising; and checking to ensure that the plan is progressing and making adjustments by controlling.

- **Raising Finance**

The household needs money for the purchase of assets such as the house itself, the family car and possibly for the children's education, family holidays, etc. The business needs working capital to purchase new assets, for operational expenses, etc.

- **Communications**

In the household, the lines of communication are usually between the family members. In a business the lines are downward from the management, upward from the subordinates, laterally (across) between employees. outward to customers and suppliers, inward from the environment.

Some activities related to both a business and a household are different

- **The Scale of the Operation**

A household is usually small compared to a business enterprise with fewer people, activities and relationships. It can therefore be less complicated to run. The variety of influences and possibilities present in any reasonably sized business adds to its complexity.

- **Motivation**

The main motivational factor present in a household is one of family love, companionship, loyalty and emotional attachment. In a business, the motivational factors are in areas like salary or profit, security, job titles, job satisfaction and challenge.

- **Legislation**

While both businesses and households are, of course, subject to the laws of the land, certain types of laws are only likely to significantly affect business. Areas such as company law or competition law do not directly affect households.

- **Management Expertise**

Specific management expertise, e.g. marketing and accounting are regularly used in the running of a business and indeed are vital for success. In a household, book-keeping and family budgeting are relevant but certainly not to the extent required in business.

(B) Principles of Insurance.

- **Insurable Interest**

The insured must have a personal financial interest in the object being insured, i.e. the object of the contract. The policy holder must benefit by the continued existence of the object and suffer by its loss. The owner of property has an insurable interest in the property - monetary value.

- **Utmost Good Faith:**

(Uberrimae Fidei) All material facts that would influence the insurer into either accepting or rejecting the risk, or in setting the premium, must be disclosed to the insurer. All information that might have a bearing on the decision to enter the contract must be supplied on the proposal form even if the information is not requested. Otherwise the insurer can declare the contract void and claims made by the insured can be rejected.

- **The Principle of indemnity.**

An insurer indemnifies the person taking out the insurance against a loss happening. There can be no profit from insurance, only recovery of the actual loss. The contract is for the reinstatement of the actual property insured, i.e. putting the claimant in the same position, as far as is possible, as was the case prior to the accident or loss. The amount for which the asset is insured is usually the cost of replacing it.

- **Subrogation**

Subrogation is the taking over by one party from another the right to take legal proceedings. The legal right of the insured is submitted to the insurance company who can follow up cases in the courts to recover damages. The insurer takes over the rights of the insured to sue a third party who was responsible for causing the loss and the insurer also has the right to take over what is left of the property. Eg. if A injures B, and B is paid compensation by the insurance company, then the insurance company can sue A to recover the money.

- **Contribution**

If the loss suffered is insured by more than one insurer then the amount claimed is divided proportionally between them. The first insurance company can call upon the second insurance company, who is also liable for the loss to the policy holder, to proportionately share the cost of the claim. This prohibits having the loss made good more than once. The loss is shared by the insurers. Contribution usually crops up where two or more companies insure the same risk, e.g. insuring the same property with two different insurance companies.

(C) (i) Why prepare a Cash Flow Forecast

- Cash is money that can be readily exchanged for goods or services. It is said to be 'liquid' in that it can be spent at a moment's notice. Without an adequate level of cash (or near cash) to allow purchases to be made, the ability of an enterprise to conduct business is limited. The flow of cash into and out of a business (Cash Flow) is an excellent way of measuring whether the business is performing well or not.

- To check the ability of a business to pay its bills or to meet its liabilities as they fall due to be paid. Liquidity or cash flow problems are related to a shortage of cash. The enterprise may have to 'lean on the trade', i.e. take trade credit but be slow in making payment, running the risk of a loss in reputation, credibility and loss of discounts.
- To locate problem areas. A business may not be collecting cash from its debtors and therefore must fund its operation from its own money or from borrowing. Costs go up.
- To ensure that income from sales of stock, sale of assets, grants from government agencies and investments which generate interest income are adequate to cover out-goings. A business enterprise would have to spend its money on buying stock, paying wages, etc., i.e. current expenditure and also on buying replacement or new assets for the business, e.g. machinery, i.e. capital expenditure.
- To plan for sources of Finance eg. bank overdrafts, accrued expenses, creditors and invoice discounting. Medium term finance, hire purchase, leasing or the longer term sources, debentures, commercial mortgages, equity capital, venture capital and the reinvestment of the profits back into the business.
- Good cash management. All business enterprises will keep a certain amount of cash, usually quite small, on the premises or in a bank account, readily available for emergency spending. The enterprise will attempt to manage the amount of cash held so that there will not be too much or too little cash at any one time.
- **July:** Net cash (€12,000) is negative and receipts are low compared to payments.
- **August:** Net cash is positive €2,750 and payments (out-goings) are decreasing in Aug.
- **September:** Overdraft increased and payments increased (perhaps purchase of machinery?).
- **July, August and Sept.** Receipts decreasing steadily.

(ii) Reduce or control expenses.

Increase receipts eg sales/decrease payments. Reduce purchases. Arrange overdraft facilities. Improve Credit Control and credit collection procedures.

Question 6. Business Plan: its importance and its preparation – 60 marks

(A) Importance of a Business Plan

- It sets out a thoughtful, well presented/laid out, logical set of steps designed to implement both short and long term strategies over agreed time periods, e.g. one year, five years, ten years, etc. It plans how to get where the enterprise wants to go over those time periods.

- It is a vital document when approaching any financial institution, grant agencies or other investors seeking funds (capital) for the enterprise. Without it, the future, and therefore the success of the project, will not be fully appreciated. No financial institutions will give funds to an enterprise without being convinced that the investment has a good chance of being recovered. The business plan markets the enterprise, it sells the business ideas to others and encourages them to seriously consider the project.
- The nature of the business plan is such that targets are set in figures wherever possible. By having these figures available they can be used as the benchmarks or standards against which the operations and performance of the enterprise can be measured. If the standards are not reached then action to fix the problem can be implemented.

(B) Business Plan Outline for Michael Kelly

(a) Introduction

The introduction contains the name, address, telephone and fax numbers and email addresses of the enterprise, together with a brief description of the type of business organisation - company, partnership, etc., the activities of the enterprise and the people involved, i.e. the owners, advisers, bankers, etc.

Michael Kelly Main Street, Dublin. 01-1234567 MK@eircom.ie

Electronic parts for domestic appliances.

Private Limited company with two shareholders

Michael Kelly is a twenty nine year old graduate in engineering.

(b) Summary

The summary contains the main elements of the plan in short form. The purpose of the summary is to keep the reader's interest in the plan. It 'sells' the business. Emphasis should be put on the main points such as the ability of the team or the profitability of the idea.

Electronic parts for domestic appliances.

Buoyant market world wide for such appliances eg. washing machines, dish washers.

(c) The Main Body of the Plan

1. Description of the Enterprise.

The description provides details of background, history, products and services, financial performance to date, customers, the goals (long range) of the enterprise and the particular strategies set out to achieve them.

New business for the production of electronic parts for domestic appliances.

Buoyant market world wide for such appliances eg. washing machines, dish washers.

2. Key Personnel.

Included under key personnel are details of the management team, e.g. ages, experience, qualifications, etc. and the management structure in place. It is however, more important to show their enthusiasm and commitment to the enterprise. Future personnel requirements might also be dealt with under this head.

Michael Kelly is a twenty nine year old graduate in engineering.

Unique experience in Research and development in a large transnational company.

3. Market Analysis.

Market analysis will have to examine:

Information on the market size and present and future trends. The location and structure of the market. The segments of the target market and product details like design features and use.

Details on customer preferences and behaviour. The age, sex and socio- economic group of potential customers is important.

Channels of distribution, sales methods, discount and credit terms, etc.

4. Marketing Strategies.

What is the competitive edge? What is the Unique Selling Point (USP) of the product or service and the strategy to cope and deal with the reaction from the competition. Sales projections and a pricing policy must be set out, together with promotion and advertising methods, distribution methods, product packaging, credit terms, product liability and warranties.

5. Products or Services

A detailed description of the product, its uses and applications, any unique product technology, the research and development completed and any licensing arrangements.

6. Manufacturing, Operations and Premises

A description of the product manufacturing process, the premises, plant and equipment proposed, the provisions made for quality, the capital expenditure expected and the cost competitiveness of the operation.

7. Financial Analysis:

Projections for the future. A realistic projected profit and loss account and balance sheet for three to five years ahead, Cash flow forecasts with inflows and outflows of cash for the same length of time are all provided incorporating details of sources of funds and financial control.

8. Investment Proposal.

The investment proposal will set out the amount sought and the reasons why the capital is required, the type of funds sought, whether loan or equity, etc. and details of any security on offer. The percentage of the shareholding available to the investor is also an important component.

9. Conclusion.

The conclusion will reiterate the main features of the enterprise with a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) and the proposed timescale for implementation and decision making.

Question 7. Market research. Market segmentation. Promotional methods – 60 marks.

(A) Market Research

Market research is the gathering, in a systematic way, of important and relevant information about specific market features and trends. Market research provides a business with the method of collecting very important information on customers and their likes and dislikes in an organised and systematic way so that the information is as accurate and reliable as it can be.

Internal Sources:

The study of these sources from the firms files will help to locate the most and least successful products, any changes that have taken place and trends for the future. The research will reveal the nature of the problem you have.

External Sources

With the use of a telephone and the internet, access statistics and trade directories which are available in all public libraries. Examples of the most common are the following:

- The population census. Available from the Central Statistics Office giving the population details of areas and towns around the country under headings like age, sex, marital status and family structure.
- The census of distribution gives details of retail sales patterns and the sales turnover for various types of retail business.
- Trade statistics for the country. Listed here will be the various types of imports and exports for Ireland. Trends may be noticed.
- The Statistical Abstract of Ireland and the Irish Statistical Bulletin provide relevant data on the consumer price index and the wages index.
- Thom's Commercial Directory lists all the businesses in Irish towns according to type.
- The Household Budget Survey. This sets out the spending pattern of Irish households on different types of goods.
- All government departments publish reports and printed material on all aspects of the departments. Look out for the newer developments.
- The media in general, including all trade magazines and publications such as newsletters from trade associations, and both national and local newspapers and free sheets.

(i) Field Studies

Some of the methods for field studies are as follows:

- **Surveys**

The main purpose of surveys is to determine from the responses how consumers in general will react to new products. Determining the reactions of consumers is achieved by randomly selecting a sample of people from the entire market for the survey and using their reactions to make generalisations about the market as a whole. The survey is usually conducted by telephone or by post. They require that potential customers are actually interviewed by researchers and the responses recorded.

- Questionnaires must be prepared in such a way that the information acquired is useful and relevant. The questionnaires are completed by members of the public at large, randomly selected or by certain sections of the public who are specially selected. If customers have carried out tests on the product prototype they will complete very specific questionnaires on the product.

- **Observational Methods.** Observe and watching the reactions of individuals.

(ii) Desk Research

Desk research involves the examination of both internal and external records including all past sales records and salespersons reports on file.

(B) Market Segmentation

All potential markets can be divided into different segments or distinct parts which are different from the other parts of the market in some way or another. Distinguishing Market Segments Eg. industrial customers and household customers.

Segments of the household consumer market can be identified as follows:

1. **Socio-Economic Class** The researchers divide socio-economic classes into groups to help distinguish the disposable income levels of each class and the preferences for certain types of goods in the particular class.
2. **Age Groups** in the younger age profiles, e.g. teenagers are interested in their image so products like fashion clothes would be important to them.
3. **Regional Groups** Geographical groups in particular such as rural or urban.
4. **Religion or Ethnic Groups** Such as Asian/SAfrican communities in a European country.
5. **Housing Type.** Privately owned versus public housing, apartments as against houses, etc.
6. **Attitude to Life.** The attitude to life will depend on the socio-economic class people come from. The poorer people in the market will not be interested in the top quality type product because of the price.
7. **Family life style**
8. **Disposable income**

(C) Promotional Methods

Promotion

This is used by business enterprises to let existing and possible future customers know about the products on offer and to get them interested in buying the goods. The essential promotional methods are:

- Advertising. The use of communications to influence customers towards a particular product or service. To inform, persuade and remind customers. The medium used will depend on the market segment, the type of product or service, the message and the cost effectiveness.
- Sales promotion. The use of attention seeking to attract customers to the product or services on offer. Used in addition to normal advertising, add to the attractiveness of the product. Offer to customers a bonus/incentive directly related to the product. Eg. Buy one and get one free.
- Public relations. The provision of details of the enterprises policies and plans to customers and the public eg. promoting the name of the enterprise in the public mind, generating goodwill for the enterprises products. Publicity through sponsorship/relations with local community.
- Personal selling. The use of personal contact to persuade customers to purchase the product or service. Face to face meetings useful for expensive products or ones that require high degrees of expertise or technical knowledge.

The purpose of all four elements of promotion is to inform the market that the enterprise has something for sale and to convince someone to actually purchase it.

**Leaving Certificate Business 2002
Higher Level Marking Scheme**

Section 1. Short Answer Questions (SAQ) (80 marks)

| Question | Marks assigned (10 per question) |
|-----------------|----------------------------------------------|
| 1 | 6 + 4 marks |
| 2 | 3 at 2 marks + 2 examples at 2 (1 + 1 marks) |
| 3 | 5 + 5 marks |
| 4 | 5 + 5 marks |
| 5 | 6 + 4 marks |
| 6 | 5 at 2 marks |
| 7 | 5 at 2 marks |
| 8 | 6 + 4 marks |
| 9 | 6 + 4 marks |
| 10 | 6 at 1 mark and 4 at 1 mark |

Section 2. Applied Business Question (ABQ) (80 marks)

- A. Employer/employee relationships. 5 at 6 marks (3 + 3)-Reason plus **illustration from text of the ABQ.** (Total 30 marks)
- B. Strategies for expansion. 2 at 15 marks (5+5+5)-Name /Information /Link. **Related to the text of the ABQ.** (Total 30 marks)
- C. Socially responsible business. 4 points at 5 marks each (2+3). **Must have reference to text of ABQ.** (Total 20 marks)

Section 3 (240 Marks)

Question 1. (People in Business)

- A. Two parties in business. 5 + 5 marks (2 + 3). (Total 10 marks)
- B. Co-operative and competitive relationship. 2 at 10 marks (5 + example for 5 marks). (Total 20 marks)
- C. Industrial Relations Act 1990 (Labour Relations Commission and Labour Court). 6 at 5 marks (2 + 3). At least two from each (5 marks for Evaluation). (Total 30 marks)

Question 2. (Domestic/International Environment)

- A. Transnational and State Owned Companies. 6 at 5 marks (2 + 3). **At least two from each.** (Total 30 marks)
- B. (i) Ethical business practice. 10 marks (6 + 4). (Total 10 marks)
(ii) Impact of business activity. 4 at 5 marks (2+ 3). (Total 20 marks)

Question 3. (Domestic/International Environment)

- A. International trade. 1 point. Opportunities and challenges. 4 points giving 5 points at 8 marks (4 + 4). **Must evaluate.** (Total 40 marks)
- B. Global marketing. 7 + 7 + 6 marks (3+4), (3+4) and (3 + 3). (Total 20 marks)

Question 4. (Managing)

- A. Report. 4 marks (4 points at 1 mark) plus 4 barriers at 4 marks (2+2). (Total 20 marks)
- B. Management Skills. 7 + 7 + 6 marks (3+4), (3+4) and (3+3). **Must illustrate.** (Total 20 marks)
- C. Organising. 2 reasons at 5 marks plus 2 examples at 5 marks. (Total 20 marks)

Question 5. (Managing)

- A. Four activities: two common/two different. 4 at 5 marks (2+ 3). (Total 20 marks)
- B. Principles of insurance. 7 + 7 + 6 marks (3+4), (3+4) and (3+3). (Total 20 marks)
- C. (i) Reasons. 2 at 5 marks. (Total 10 marks)
(ii) Two solutions to problems. 2 at 5 marks (2 + 3). (Total 10 marks)

Question 6. (Business in Action)

- A. Business Plan importance. 7+7+6 marks (3+4), (3+4) and (3+3). (Total 20 marks)
- B. Business Plan. 5 headings at 8 marks each (4+4). (Total 40 marks)

Question 7. (Business in Action)

- A. (i) Field Studies. 5+5 marks. (Total 10 marks)
(ii) Desk Research. 5+5 marks. (Total 10 marks)
- B. Market segmentation. 5+5 marks. (Total 10 marks)
- C. Three promotional methods. 3 at 10 marks (3+3+4)-Name/Product/ Evaluation. (Total 30 marks)