



# Coimisiún na Scrúduithe Stáit State Examinations Commission

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*Scrúduithe Ardteistiméireachta, 2003*

*Gnó*

*Ardleibhéal*

*Marking Scheme*

*Leaving Certificate Examination, 2003*

*Business*

*Higher Level*

# **Business**

## **Higher Level 2003**

**This booklet contains the following:**

- 1. MARKING SCHEME**
- 2. NOTES ACCOMPANYING MARKING SCHEME**

**The notes presented here are not exhaustive or complete. They are not model or suggested answers. Further points of information, illustration etc. presented by candidates are examined and rewarded by the examiners on their merits.**

## Leaving Certificate Business 2003 Higher Level Marking Scheme

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

Question	Marks assigned (10 per question)
1	4 + 6 marks
2	2 at 5 marks (2+3)
3	5 at 2 marks
4	4 + 6 marks
5	5 at 2 marks
6	4 + 3 + 3 marks
7	5 + 5 marks (2 +3)
8	4 + 6 marks
9	4 + 6 marks
10	2 + 2 + 2 + 2 + 2 marks. No Title and Labels (-2 marks)

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

- A. Sources of finance 2 sources of finance (one short and one long)—2 at 15. (2 + 4 + 4 + 5). Reason plus illustration from text of the ABQ. (Total 30 marks)
- B. Environmentally conscious company methods 5 at 6 marks (2 + 2 + 2). Relevant to the text of the ABQ. (Total 30 marks)
- C. Challenges in developing markets abroad 5 points at 4 marks each (2 + 2). Must have reference to text of the ABQ. (Total 20 marks)

### Section 3 (240 Marks)

#### Part 1. People in Business/Business Environment

##### Question 1. (People in Business)

- (a) Role of interest groups 2 + 4 + 4 marks. Must illustrate with example. Name only -2 marks. (Total 10 marks)
- (b) Elements of valid contract. 5 at 6 marks (2 + 2 + 2 marks). (Total 30 marks)
- (c) Discrimination. Definition (4 + 6 marks). Grounds (5 at 2 marks). (Total 20 marks)

##### Question 2. (Domestic/International Environment)

- A. Business alliances and franchising 2 at 15 marks (5 + 5 + 5). Must illustrate. (Total 30 marks)
- B. (i) Community development (4 + 6). (Total 10 marks)  
(ii) Community and business benefits 4 at 5 marks (2 + 3). Must have example. (Total 20 marks)

**Question 3. (Domestic/International Environment)**

- A. Single European market 5 at 8 marks (4 + 4). Must evaluate. (Total 40 marks)
- B. European union policy 7 + 7 + 6 marks (3+4), (3+4) and (3 + 3). (Total 20 marks)

**Part 2. Enterprise**

**Question 4. (Managing)**

- A. Entrepreneurship 4 + 6 marks. (Total 10 marks)
- B. Enterprising personal characteristics 5 at 4 marks. Name, example/reason (2 + 2 marks). (Total 20 marks)
- C. Entrepreneurial skills contribution 3 at 10 marks (2 + 4 + 4). Relevant to community or Government Department. Must illustrate. (Total 30 marks)

**Question 5. (Managing)**

- A. Management skills 3 at 20 marks (4 at 5 marks each). (Total 60 marks)

**Question 6. (Business in Action)**

- A. Functions of human resource manager 5 at 5 marks (2 + 3). (Total 25 marks)
- B. Teamwork benefits 4 at 5 marks (2 + 3). (Total 20 marks)
- C. Methods of reward 5 at 3 marks. (Total 15 marks)

**Question 7. (Business in Action)**

- A. Internal and external sources of new ideas 7 + 6 and 6 + 6 marks. (Total 25 marks)
- B. Marketing mix 4 Ps 9 + 9 + 9 + 8 marks (3 + 3 + 3) and (3 + 3 + 2). (Total 35 marks)

## NOTES ACCOMPANYING MARKING SCHEME

### SECTION 1 (Short answer questions)

#### 1 Service Industry

Tertiary industries are the service industries and businesses providing a service of one kind or another to the other industries, i.e. to the extractive or manufacturing industries or to the public. They may not actually produce or make a product but they provide an important service by bridging the gap between producers and the final consumer.

The services provided would include public utilities such as electricity, provided by the Electricity Supply Board, gas provided by An Bord Gas and water and sewerage facilities provided by the country's local authorities. Other services provided would be:

Transport services, e.g. buses, trains, taxis etc. All communications services e.g. the telephone, fax and E-mail facilities. Distributive services, e.g. wholesalers.

Banking and financial services, e.g. commercial banks, building societies, credit unions, insurance companies etc. Professional services, e.g. accountants, solicitors, architects, doctors. Catering services, e.g. restaurants, hotels and cafes. Entertainment services, e.g. music, drama and the arts. Government Services, all the services provided by central government and local government authorities, e.g. economic and environmental planning, education and training, industrial and agricultural development, national security and justice.

#### 2 Form P45

When an employee leaves employment during the tax year or dies the employer must issue a form P45. This is a four part **cessation certificate** containing the employee's revenue and social insurance number, tax table, total pay to date, any tax due and all tax paid to date. Part one of the document is sent to the tax office and parts two to four of the P45 are given to the employee's new employer who will make sure that the tax from then on is worked out accurately.

#### Form P60

A P60 is a certificate of gross pay, tax and PRSI deducted, issued to each employee at the end of each tax year. After 31<sup>st</sup> December each year, all PAYE taxpayers receive from their employers a form P60 with two parts. The taxpayer has a statutory right to this document and it is used as proof of income for various purposes, e.g. education grants, medical services, etc. The form shows the amount of net pay, the class of PRSI contribution and amounts of tax and PRSI paid.

#### 3 Organisation Structure

##### Example: Functional

Chief Executive

Research & Dev.      Human Resources      Manufacturing      Finance      Sales

Product A, B etc

Area A, B etc

#### **4 Empowerment of Workers**

The empowerment of workers means placing real power, which includes decision-making and full responsibility, in the hands of those workers where it is most effective, i.e. as close as possible to the customer. Empowerment means that managers who are not close to the customers give up control to those closest. Decision-making and control is in the hands of workers who use their skills in the interests of the organisation.

Empowerment helps a business to:

- Greatly improve the service to customers.
- Give the worker the opportunity to improve existing skills and acquire new skills.
- Improve staff motivation because empowerment allows them to influence business outcomes and a sense of achievement is experienced.
- Improve morale and reduce stress. Workers have control over how they work.
- Make the workings of the organisation more effective because workers work using their own initiative and without regularly seeking permission from managers.
- Cope and react well to a constantly changing business environment.

5.

1 (d):    2 (f):    3 (b):    4 (c):    5 (a).

#### **6. Types of Control.**

**Quality control** involves examining everything about a product or service which satisfy customers' requirements in as cheap and efficient a way as possible.

##### **Stock (Inventory) Control**

A stock control system ensures that stocks are maintained at a level which meets the needs of uncertain demand but which at the same time are kept to a minimum.

##### **Credit Control**

Goods are sold and payment is not made until some time into the future. A trade debtor is created with the risk of bad debts.

##### **Budgetary Control.**

A financial plan that sets out the expected income and expenditure of the enterprise for a future period of time. A comparison is made between actual financial performance and the budget figures. The cause of the variance would be investigated .

#### **7 Grant**

Grants are non-repayable amounts of finance provided by the Government and the EU as an economic incentive to business to overcome some difficulty/obstacle or encourage action eg. aimed at specific geographical areas, e.g. the Gaeltacht areas or at particularly underdeveloped areas with high unemployment. The European Regional Fund, the European Social Fund and the European Cohesion Fund grant aid a wide variety of economic initiatives such as infrastructure development, training, market research, job creation, enterprise development, etc.

## Subsidy

A subsidy is a price support. Usually, the government subsidises prices when it provides the seller with the difference between the selling price and the economic price of the good or service. The goods or services are then sold at a price below the market price. The income of the seller is increased and has the direct opposite effect to taxation. Subsidies are designed to increase the production of, or reduce the price of, goods or services that are deemed to be socially desirable, e.g. the subsidy (subvention) to CIE.

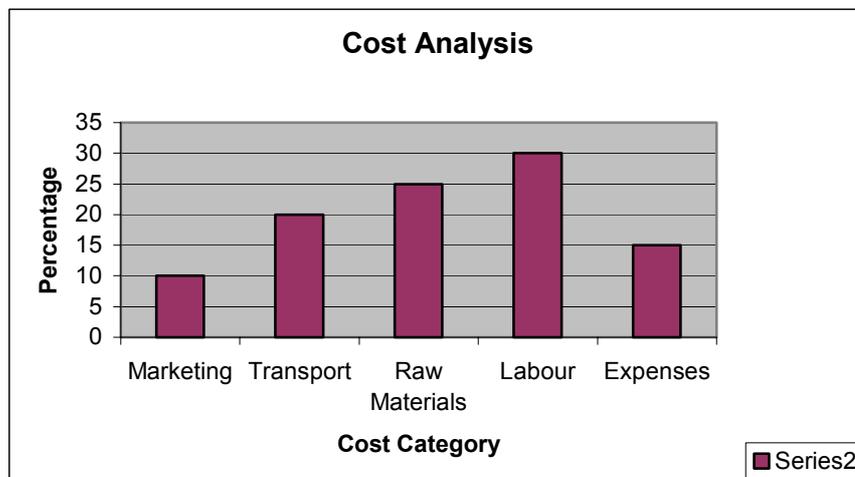
## 8 Indigenous Firm

The term indigenous refers to business enterprises that have been set up, founded or originated in a certain locality eg. Ireland. The enterprise is not foreign, it is not imported; it is native to and based in Ireland i.e. domestic home based businesses. The enterprise is owned by Irish people who have a direct personal interest in its survival and growth.

## 9 Inflation

Inflation is defined as the 'sustained' increase in the level of money prices in the economy as measured by the consumer price index. Rising prices for goods and services leads to higher wage demands by the labour force who see the value of their wages decrease over time. Higher wages push up the price of goods and so it continues with inflation causing more inflation in an upward spiral.

## 10. Bar Chart



## SECTION 2 (Applied Business Question)

### (A) Sources of Finance

**Short Term:** The main sources of short term finance, i.e. finance available for less than one year, for a business include trade credit, bank overdraft, accruals, taxation. invoice discounting, factoring. **Client** would have to spend its money on buying stock, paying wages, etc., i.e. current expenditure.

#### 1. Bank Overdraft

A bank overdraft is a short-term loan given to current account holders for a duration of less than one year, designed to meet short-term expenditure needs. An overdraft must be agreed with the lending institution each year and is reviewed by the lender regularly during the year. It is a very flexible method of finance, as changes can be negotiated quickly. If an overdraft facility has been agreed with the financial institution, then the current account holder is permitted to overdraw up to the agreed amount over a specified time period. This need arises because the business is constantly moving cash to pay suppliers, employees and general running expenses. There is a limit agreed on the amount of the overdraft and interest is charged on a day-to-day basis on the amounts overdrawn. It is therefore an advantage to repay the overdraft as promptly as possible, thus keeping interest payments to a minimum.

#### 2. Trade Creditors

Suppliers give an agreed credit period to their customers and the use of this credit period can be very useful to the cash-starved small business. At first glance this might look like a free or very cheap source of finance, especially when compared to the bank overdraft facility. Using trade credit is only cheap if payment is made on time and this demands good cash/liquidity management of the business. Generally speaking, the earlier bills are paid, the more discounts can be availed of. It follows then that if the maximum credit period is taken then discounts are lost. The business person must judge whether to wait and pay the account at the last minute or to pay more promptly and avail of the cash discount. The business community will recognise a slow-paying customer very quickly. A slow payer will have a poor credit rating and suppliers will be reluctant to do business with such a customer, except on a cash basis.

#### 3. Accrued Expenses.

There are many expenses that a business must pay regularly, such as the commercial rates and service charges to the local authority, the electricity, telephone and fax bills. These expenses are incurred, but are not paid for, until some time after the service has been provided. The creditors in these cases do not seek payment until the service has been provided to the business and therefore the benefit of the service without payment lies with the business. These accrued expenses are current liabilities for the business. They are generally amounts due to be paid within a short period of time and certainly within one year.

#### 4. Taxation Due

Taxes due to the Revenue Commissioners are similar to the position of accrued expenses for a business. The business collects taxes on behalf of the Revenue Commissioners. Taxes like employees' PAYE, PRSI and the VAT collected on sales are held by the business for a time before being forwarded to the Collector General. The benefit of holding this money remains with the business but the money must be paid over eventually. Taxes due can be regarded as a very short-term source of finance but it would be very dangerous for a business to depend on it. The Revenue Commissioners will collect the money owed to them in time and high interest rates and penalties are charged to those businesses who do not meet their commitments.

**Long Term:** i.e. those extending beyond five years duration. These include long term loans (debentures), commercial mortgages, equity capital and venture capital.

**Client:** would have to spend its money on buying new assets for the business, e.g. machinery i.e. capital expenditure.

#### 1. Equity Finance (Ordinary Shares)

The benefits of using equity capital as a source of funding growth include the following:

- Since there is no guarantee to the equity shareholders that they will receive a dividend each year Equity capital can be a very cheap method of finance from the point of view of the business. If the company had a bad trading year and profits were low then the business could simply continue on.
- The company does not have to pay back the share capital to the shareholders. Compare this situation to a loan where capital and interest must be repaid.
- The ordinary share capital does not create expenses (overheads) for the business unlike interest on borrowings which are a charge on the profits. If a profit is made there is therefore more money available for distribution to the shareholders.
- Company directors, in consultation with shareholders, have great influence in deciding whether to use or not to use retained earnings (reserves) to finance the growth potential of the business.

The dangers to the business of employing equity capital are:

- The demand for ordinary shares among investors is subject to the uncertainties of the marketplace. There is a high business risk attaching to them. 'Risk-averse' investors will avoid them. The shares may have to be sold at a low price or large numbers of them offered for the required finance.
- The creation of large numbers of shareholders dilutes the influence of the enterprise's original promoters (founders) in the decision-making process. These 'outside' shareholders will certainly exercise their votes to influence policy decisions.
- The issuing of shares, especially if the company is a public one, can be expensive. There are various legal formalities to be met and professional fees to be paid.
- Public limited companies must submit to rigorous financial and reporting requirements if they are to be listed on the stock exchange.

## 2. Long Term Loan Finance

Long term loans from financial institutions, i.e. debt capital, have benefits for the growing business enterprise.

- Compared to the raising of share capital, debt capital is easier to get. There are many types of business loans available in the market place from all types of banks.
- It is also a cheap source of finance compared to equity. During times of inflation, the value to the business of all interest payments diminishes. This of course is good from the borrower's point of view.
- Interest payments on business loans are an allowable expense in the profit and loss account thus reducing the corporation tax liability of the enterprise.

The dangers to the business of using loan capital are:

- All loan interest, capital repayments and other charges must be made to the financial institution as agreed irrespective of the business performance. A highly geared company, i.e. one with a high debt/equity ratio, will suffer a reduced ability to allocate profits to shareholders by way of dividend because of the payments associated with the loan.
- Loan capital may affect the flexibility of the business as repayments at certain agreed times affect liquidity and thus business decisions.
- The suppliers of debt capital may insist on one of their representatives being appointed to the board of directors to monitor the progress of the business.

## **(B)Environmentally Conscious Company**

### **Environmentally conscious business enterprises are:**

- Sensitive to all environmental considerations in its policy making, e.g. by adapting the voluntary EU Eco audit scheme, which identifies problem areas before they become acute and ensures compliance with the enterprise's environmental policy and national legislation.
- Open to the development of new methods and thinking on environmental issues.
- Committed. When something goes wrong it does its utmost to correct it in the most effective and efficient environmentally friendly way.
- Honest. It tells the truth and is above board in all matters affecting the environment, e.g. it does not hide industrial accidents, etc.
- Shares and consults with all the interested parties when developing and implementing policies that effect the environment.
- Promotes environmental issues among its employees, customers and business community and spends money on the issues.
- Identifies management systems needed to tackle environmental issues and formulates attractive and effective business environmental policies in general.

### **Practical things that Clodagh can do to tackle environmental issues.**

- Raise awareness by including an environmental policy statement in the mission statement of the enterprise. Include it in the guiding principles of the enterprise.
- Educate the enterprise's employees in environmental awareness, e.g. through awards, prizes, etc.
- Invest in machinery that reduces discharges into the environment. Minimise the use of all chemical products dispersed into the environment via drains.
- Reduce pollution by burning less fossil fuels. Buy only energy efficient appliances.
- Control pollution by implementing cleaner policies, e.g. replace the use of CFCs with alternatives.
- Develop environmentally acceptable disposal methods, e.g. refundable deposits on fridges to ensure CFC recovery. Encourage sorting systems for paper, clothing, tins, glass and other containers. Recycle wherever and whenever possible.
- Encourage transport sharing schemes.
- Arrange for tree-planting schemes on land owned by the business.
- Reject excess packaging on products.
- Consume less but better. It is better for the environment if businesses /consumers go for durability, efficiency and effective design of products.

### **(C) Opportunities for Cli-he in developing markets abroad**

- **Growth and expansion.** By increasing the volume of sales, higher profits will more than likely follow. The enterprise that wishes to **expand** its operations in the future **must export** from Ireland eg. the EU.
- Consumers usually demand **more choice** and variety once the standard of living and disposable income of the population increases.
- The **future stability and security of the enterprise** will be guaranteed in the long term. The business will be selling into a larger market and be far less dependent on one small domestic Irish market. Spreading the risk is a far better option for the business ie exploiting alternative markets.
- Where large quantities of goods are produced or amounts of services are provided, **unit costs can be greatly reduced for the consumer.** Savings in price and maintenance of quality can only be achieved by selling into large markets abroad.
- Export sales to non euro countries earn **foreign currency** directly for the enterprise which in turn can be used to pay for necessary imported commodities.
- An increase in the volume of production where **investment in technology is justified** and increases in efficiency are gained and therefore lower prices for consumers.
- Falling orders in one market are **balanced** by increasing orders from other markets.
- The **exposure to a wider range of markets and competitors** increases the marketing skills and knowledge in the organisation.
- The business can **compete on an equal footing** with foreign enterprises on the domestic market.

## Challenges

- International marketing/selling is complex because of the **lack of familiarity** with conditions in various countries, each country's culture, geography, the size of the market, the willingness to buy and the ability of the market to pay etc. are different.
- Costs. The **costs** associated with distribution, labour, raw materials, scale of production facilities etc. are **high**.
- **Environmental forces** create conditions over which there is little control, e.g. economic conditions.
- Government **policies**.
- **Language**. European markets, Asia, Japan etc. Adds to costs and risks.
- Development of Human Resources. The **training** and development of the workforce to meet the challenges of the new market situation is necessary, e.g. technology, language and marketing skill development etc.
- Culture, Religious **beliefs and practices**, Traditions and Social factors.
- **Standards** of living. Disposable income eg. new EU member states.
- Foreign **currency** availability.
- Political tensions, military regimes, **instability** etc.
- Each market needs a different response because of varying conditions, e.g. different **legal standards** may affect packaging, labelling, instructions, raw materials, etc.
- Competition. New enterprises 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 local employment may be adversely affected by **open competition**.

## SECTION 3 Part 1

### QUESTION 1

#### (A) 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 any business they oppose. This can increase costs as more advertising is needed to counter the bad publicity. Security has to be increased because of protest meetings, possible picketing at premises, etc. The image of the business may be damaged sometimes leading to a fall-off in the demand for its products.

Examples: Promotional pressure groups e.g. Greenpeace (environmental protection), Irish National Organisation for the Unemployed (INOUE). The Consumer Association of Ireland, Irish Business and Employers Confederation (IBEC), Chambers of Commerce of Ireland (CCI) and the Irish Congress of Trade Unions (ICTU) try to influence

government by issuing reports on important issues like unemployment, taxation and small business policy.

## **(B) Elements of Valid Contract**

All contracts are similar in that they have many elements which are common. These common elements are:

### **1. Agreement**

An agreement may be made in any manner:

- In writing, (a formal and very common way of making contracts for the purchase of assets, e.g. a house or land)
- By word of mouth (oral), e.g. at an auction.
- Implied from the conduct of those making the agreement. While nothing is said or written down, the behaviour of the parties signifies agreement, e.g. when a customer goes to a checkout in a supermarket with a basket of groceries.

An agreement however cannot be validly made without the existence of a valid offer and an acceptance of that valid offer.

#### **(a) Offer**

An offer is a promise by the person making the offer to be bound by the contract if the offer is accepted properly.

The offer made has to be clear and final. It must be communicated to the person receiving the offer (the offeree) so that there is an opportunity to either accept or reject it. The offer can be made to an individual or to the world at large. It can be communicated in any manner whatsoever. It may be made orally (in words), or in writing or it may be implied from the conduct of an individual.

#### **(b) Acceptance**

An acceptance can be made in any way, e.g. orally, in writing, by conduct, by post, etc. An acceptance of an offer must have no conditions attached to it and must agree fully with the terms of the original offer.

For example, if a product is offered for sale at £100 and the offer is accepted with the condition that ten instalments of £10 each be the method of payment, the acceptance is not valid because conditions have been attached to it. There is no agreement.

A further important point is that if a valid offer is made and a counter offer is received in return, e.g. a product is offered for sale for £50 and a counter offer of £48 is made in return, then there is no acceptance of the offer and therefore no agreement.

### **2. Intention**

There must be an intention by the parties to create a contract. What the parties intend to do can be assumed from the way they conducted themselves or what they wrote down or said. Where a business agreement is concerned there is a presumption that a legal contract is the intended result. With social and domestic contracts, e.g. an agreement to go to a football match, the presumption is the opposite, i.e. that the parties do not intend legal relations to exist.

### **3. Consideration**

Consideration means that some advantage or benefit must move from one party to the contract to the other. The consideration must be valuable and real. Money, being both valuable and real, is the most common form of consideration, e.g. cash.

Consideration is an essential part of a valid contract. It is the price for which a promise is bought. A bare promise, without valuable consideration, is not legally binding. If both parties act in good faith then the price (consideration) need not be adequate.

Consideration must not be vague or illegal.

All contracts for the sale of goods provide examples of consideration in a contract because goods are exchanged between the parties for money and each party benefits eg. if Mary agrees to sell Barry a car for IR£5,000, both Mary and Barry receive something; this is a valid contract.

### **4. Consent**

Real consent must exist between the parties to the contract. The consent to the agreement has to be genuine and voluntary in all respects. No pressure of any kind can be exerted from the parties to the deal.

If there is something that damages the agreement in any way then there is no consent and therefore no contract. If, for example, an honest mistake was made or force was used to get the consent, then one party to the contract may be consenting to something which they do not fully understand.

### **5. Capacity**

The parties to a contract have to have the capacity to make the contract. All natural persons, (a legal term for a human being), and legal/corporate persons, such as companies, have contractual capacity.

The exceptions to this general rule would include the list below who normally do not have the capacity to contract.

- Infants (those under 18 years of age).
- Persons under the influence of drink or drugs.
- Insane persons.

These people are all deemed to be incapable of making valid contracts ie they do not understand fully what they are doing and if they do enter a contract then it is void (not valid)

There are however some contracts that are binding on infants, e.g. when an infant enters a contract for necessaries (e.g. medical services, accommodation, food, etc.) or contracts of education and training (e.g. professional apprenticeship, sporting contracts, etc.)

### **6. Contracts must not be Illegal**

The courts will not allow action to be taken on illegal contracts such as those which break the law of the land, e.g. contracts for the commission of a crime, contracts to evade tax, to corrupt public life, to interfere with the course of justice, etc. If an illegal contract exists then no action can be brought for its breach.

### **(C) Employment Equality Act 1998**

The act describes discrimination as:

**The treatment of one person in a less favourable way than another person is, has been or would be treated.**

Discrimination is outlawed on nine distinct grounds:

Gender

Marital Status

Family Status

Sexual orientation

Religious Belief

Age

Disability

Race

Membership of the Travelling community

The act defines sexual harassment and outlaws it in the workplace.

### **QUESTION 2**

#### **(A) Business Alliances**

A business alliance is a relationship (an agreement) formed between two business enterprises to promote the business interests of both. The enterprises become allies and, although usually independent of each other, they will help each other in particular commercial matters. Access to wider markets either at home or abroad can, for example, be achieved without a major investment of capital.

Marketing alliances with businesses on the home and foreign markets are quite common, e.g. one enterprise may agree to sell or distribute another enterprise's products or services.

Promotional alliances occur where one business promotes another firm's products.

Pricing alliances are used to share the other enterprise's customers using discounts.

Distribution alliances involve one business offering its storage and delivery facilities to another's products.

Joint venture alliances could occur where a foreign investor that has a product to sell on the Irish market takes a stake in an Irish business. The investor gets into the market and the Irish business adds to its product portfolio. Examples: Aer Lingus/ One World

#### **Franchising**

Franchising involves the granting of a licence (a permission) by a franchiser (franchise creator) to the franchisee (the investor) entitling the franchisee to sell the product or service. The franchiser, i.e. the enterprise that owns the particular product or service, usually has already established a very large and successful business. The franchiser would have a well-established name in the marketplace and an established reputation. The franchiser licences other enterprises to sell its products or services but only under its

name. Entrepreneurs can viably set up their own businesses and be their own boss enjoying reduced risk because of the pre-designed format of the enterprise  
Examples: McDonalds (catering), The Body Shop (cosmetics) and Pizza Hut (catering).

### **(B)Community Development**

For any local economy to thrive, the people who live in it and have a stake in its future must also actively promote and develop (cause to grow and expand) it at every opportunity. Projects are undertaken for the benefit of the community and provided by community-based groups e.g. community councils, educational establishments, clubs etc. When the term local community development is used, it means that groups of people, help themselves and their communities to set up new enterprises, schemes, projects etc. and improve the local social and economic infrastructure of their areas.

### **Benefits of local communities and businesses**

- These groups enrich the lives of the people in the locality both economically and socially. Opportunities for personal and skills development are available eg. youth training, apprenticeship training, training for the long term unemployed etc.
- They provide a future for their children in the local region.
- Enterprises may be set up to provide employment in their local areas and thus develop their local economy. They may provide part time work. The establishment of business enterprises in a local community brings an immediate increase in the levels of employment both directly in the enterprise itself, but also indirectly in the services, required by the enterprise and its employees, e.g. transport, education, entertainment.
- The money earned by the employees in the area will be spent in the area. Homes will be constructed for the families involved in the enterprise, young people will be able to make a living in their own community. Others will be given the opportunity to re-train.
- The local area will generally be wealthier, with better infrastructure and services. This in turn will attract others to the area and help it prosper even more. The general standard of living and quality of life of the local community is improved.
- Plans can be laid for future development based on the attitudes, knowledge and skills of the community for the benefit of future generations.
- The co-operation and involvement of all members of the community in the process of development enriches people personally, leading to happier and more fulfilled lives.
- Local development programmes help to develop the skills of local communities to enable them to tackle unemployment and build the local economy.

Examples of Community Development Organisations:

Leader 2, County Enterprise Boards, FÁS, Community Partnerships, County Development Boards, Business Innovation centres.

Services available for local communities cover the following range:

Grants, Training of personnel, Mentoring service, Business Planning, Marketing, Product Development, General Information and advice on how to set up and develop a business idea.

### QUESTION 3

#### **(A) The Single European Market: significance for business:**

- Removes customs duties and barriers to trade in the member states.
- Leads to the free movement of goods, services, finance (capital) and people around the EU.
- Thousands of administrative forms which the member states had accumulated over the years are eliminated.
- Increased competition provides new opportunities for creating jobs and a wider supply of cheaper products for consumers. There is a reduction in unit costs of production due to the increase in levels of production.
- The harmonisation of taxes throughout the EU ensures that competition is not distorted, e.g. VAT rates and excise duties are approximated between member states, EU expenditure through the structural and cohesion funds is increased
- Business risks are reduced because of reduced dependence on the domestic market.
- Economies of scale are made possible by the creation of a huge EU domestic market which, in turn, increases competitiveness of the business in world markets.
- There are lower research and development costs for business because of the lengthening of production runs.
- Product life cycles are longer because of the larger market.
- Non-traded industries, e.g. construction and services, may quote for all public contracts in the EU. This is known as public procurement.
- Specially designed products/services necessary to meet special national standards are no longer necessary.
- There is Union-wide registration and protection of patents, trade marks and copyright (intellectual property) that enables the modern innovations of Irish high-tech businesses to be marketed more easily, quickly and cheaply.

#### **(B) The Common Agricultural Policy (CAP)**

The Common Agricultural Policy is based on three principles. They are:

- The unity of the market. All agricultural products move freely in a single agricultural market.
- Financial solidarity. This means that the EU will continue to finance the CAP.
- EU preference. Products from the EU will be given preference.

The impact of the CAP on Irish agri-business is protectionist in that farm food prices are fixed at a minimum by the EU. Stocks of farm products were bought at slightly below the minimum price, i.e. the intervention price and stored, thus creating what has become known as beef mountains, wine lakes, etc. These have reduced over the past few years and Commissioner Fischler has recently negotiated a reformed CAP agreement.

Because of the CAP, the member countries of the EU are self-sufficient in most basic food products. This is no mean achievement since there are around 400 million people to be fed each day in the EU. The ten million farmers in the EU are among the most productive in the world. In fact, the EU has not only achieved security of supply in food for itself but is also a major exporter and supplier of food to world markets and the developing world.

A system of direct payments to farmers has been introduced to control production to the benefit of all the EU's farmers. Farmers are encouraged to make use of less intensive production methods thus reducing production and the risk of surpluses and at the same time make a positive impact on the environment e.g. policies like 'set aside' where land is not put into production or the Rural Environmental Protection Scheme (REPS) where payments are made for the maintaining of farms in an environmentally friendly manner.

### **The Common Fisheries Policy (CFP)**

The Common Fisheries Policy (CFP) is an EU policy just like the CAP with common rules throughout the EU covering all aspects of the fishing industry. The following are the main provisions:

- Access to Fishing Grounds

Access to coastal waters is reserved for fishermen from local ports to a distance of 12 miles off-shore. This exclusion is necessary to prevent foreign boats from over-fishing the areas. There are also protected areas where fishing is restricted in an effort to protect fish breeding grounds, e.g. the Shetland Box off Scotland. The EU is allowed to define where fishing is banned or restricted and all EU boats must be licensed to fish.

- Conservation of Fish Stocks

This policy is designed to protect fish stocks from over-fishing. Young fish catches are reduced, the mesh size of nets is regulated and limits applied to different fishing seasons.

- Monitoring Fishing Activity

The responsibility to ensure that all the rules are applied rests with each member state. To help with this, the EU provides aid for the purchase of fishery protection vessels and aircraft for the authorities. Skippers must keep log books of catches and fish landings at ports. Large fines, confiscation of fishing gear/crafts are the sanctions for breach of rules.

- Marketing of Fisheries Product

This policy is similar to the CAP in that it is designed to stabilise the market, guarantee a steady supply of products, provide reasonable prices for consumers and support fishermen. There is what is called a withdrawal price below which fish are withdrawn from the market and not sold.

### **EU Competition Policies**

The competition policy of the EU aims to

- Ensure that the best guarantee for the consumer of getting quality goods and services is to have a number of suppliers competing for the business, i.e. the existence of competition among suppliers.
- Have rules to ensure that businesses operate on a fair basis and that customers benefit.

- Restrict businesses from forming anti-competitive cartels to share markets between them or to keep prices artificially high or block newcomers from entering the market.
- Concentrate on countering monopolies by imposing large fines, e.g. up to 10% of total turnover, which act as both a deterrent and a punishment.
- Control Dominant Positions. A large business will be in breach of EU competition regulations if it uses its dominant position in the market to increase prices to customers or restrict smaller competitors. The business might try to charge different prices in different markets for no apparent reason other than to squeeze a competitor.
- Selective Distribution Systems. If an agreement between a manufacturer and a dealer restricts a customer in one member country from purchasing a product in another where the price is cheaper, there will be a breach of the law.
- The Commission has the power to control large mergers or takeovers that might restrict competition in the EU.

## **Social Policy**

## **European Monetary Policy**

## **Structural Policy**

## **QUESTION 4**

### **(A) Entrepreneurship**

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 i.e. they are not capable of being calculated, like the risks in insurance.

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. Profit is the reward they get for their efforts and drive.

They usually make all the business decisions and rely on their own good judgement.

### **(B) Personal Characteristics of Enterprising People**

**1. Control.** They usually need to be in control of situations. They are independent and have a need for achievement.

**2. Risk taking.** Successful enterprising people are not afraid of failing. They can take both financial risk and personal reputation risks.

**3. Flexibility.** Enterprising people accept change as natural. They learn from mistakes and failures and are always checking feedback to see if the job can be improved. Their self-imposed standards are high.

**4. Confidence.** Enterprising people have high self-image and self-confidence. They look for solutions rather than problems. They like to get things done by the most efficient ways.

**5. Realism.** Enterprising people are very realistic people. They are honest with themselves. They choose things that are achievable rather than desirable all the time. Entrepreneurs accept what can happen and do not go for the impossible.

**6. Decisiveness.** Enterprising people have the ability to make quick and clear decisions and take responsibility for the actions and decisions they make. If a decision is a bad one then they accept the result without blaming other people.

**7. Determination.** They do not give up easily due to obstacles and failures. They are determined at tackling problems and succeeding at the task on hand. They cope with disappointments on the way to success and can take setbacks regularly.

**8. Leadership.** Enterprising people are good leaders. They can get people to work together in teams and motivate people to see opportunities and use the opportunity to everyone's benefit.

**9. Energetic.** Enterprising people are not lazy people. They are get up and go and hard working people who stick at a task until it is completed.

### **(C) Enterprise skills in the Local Community or A Government Department**

Personal inner control  
Reality perception  
Innovation  
Risk management  
Decision making  
Planning and Goal setting  
Time management  
Delegation  
Using Feedback.  
Problem solving  
Stress management  
Human relations  
Leadership Skills

### **QUESTION 5.**

#### **(i)Leading**

Leadership enables 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 often fail because it produces a very resentful group of people who will not co-operate and people who 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 and motivation and co-operation levels are very high leading to 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.

## **(ii) Motivating**

Motivation may be defined as the factors that cause people to act or behave in certain ways.

People's behavior can be influenced (controlled) by motivating them to meet their unsatisfied needs. (1) **A need** (2) **A 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 and then 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 above all else.

Avoid taking responsibility.

Theory X often reflects the views of 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 being 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.

## **(iii) Communicating.**

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

### **Barriers to Communication**

Noise, Assumptions, Climate, Planning, Language, Media, Detail, Speed, Timing etc.

### **Downward Communications**

Downward communications. Instructions 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 getting opinions through discussion. The message is clear. Subordinates to have a say. It brings everyone closer together. It helps democratic style 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 consistently together in the interest of all.

**Electronic/ ICT**

Email, Video Conferencing, EDI , Internet etc.

**Written:**

Meetings – Agenda, Minutes, Memorandum, Reports, Letters etc.

**QUESTION 6****(A) Key Functions of HRM**

- Manpower planning

Manpower planning involves examining the human resource needs of the organisation and ensuring that they are met. An audit of existing employee skills and expertise may be conducted. Plans for the future are laid and employee development programmes designed.

- Recruitment and Selection of Employees

Personnel in an organisation change for many reasons, e.g. retirements, transfers, illness, resignations, promotions, maternity leave, etc. For this reason the HR specialist must maintain a supply of personnel to meet all requirements.

- Training and Development

As organisations and people change over time, all personnel must be ready to meet the challenges of changes in the market place, among competitors, in the law and in technology applications and products. Personnel are helped in this area with programmes of training and development.

- Performance Appraisal and Review

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

- Industrial Relations

Industrial relations are the relations existing between employers and employees on such matters as pay and conditions of employment. Negotiations must take place between the parties, not only on pay, but also on complaints, grievance and disciplinary procedures and on issues like redundancy, early retirement and dismissal.

- Employee Health, Safety and Welfare

The implementation of the various health and safety regulations in the workplace together with interest in, and support for, the social and recreational needs of employees, e.g. sport and social clubs, has a very positive effect on employee morale.

- Pensions Administration

The Human Resources Manager will be the contact through which pensions will be arranged.

- Monitoring General Employment Conditions

Since the main asset of all organisations is its workforce, particular care will be paid to maintaining the attractiveness of working for the organisation. Care will be taken to reduce the risk of key personnel leaving and avoiding high labour turnover difficulties in general. If the market rate of pay is not offered, then new, talented employees will not work for the organisation, they will leave and work for other organisations.

## **(B) Benefits of Team work**

- To be successful in most things, an individual usually possesses some of the enterprise skills such as innovation, determination, perseverance, goal-setting, risk assessment, human relations skills, etc. Most things are only achieved with the help of others as part of a team. Being able to work as part of a team of people in the pursuit of goals, coupled with the individual skills, is the mixture necessary for success.
- Individuals wish to feel a part of the organisation but this is made difficult by the large size of the organisation. Smaller groups are formed within the larger organisation to which the individual can belong. People can satisfy the need for belonging by contributing in some way to the smaller group, the team.
- Teams are formed because the members have shared objectives, e.g. apprentices or trainees.
- Teams are attractive, e.g. working abroad, social or sporting skills.

- Morale is described as the feelings, attitudes or psychological state of mind of an individual or group of individuals. It is the quality of the feeling of belonging and of confidence that exists in a team or group.  
Morale is a collective feeling of dependability and strength of purpose experienced by the employees who are members of a team. These feelings and attitudes can, of course, be either good or bad.
- Morale is high when the team is working towards a common objective or interest and the objective or interest is also that of the individual.  
If the spirit of the team is high, it will encourage all members to work hard to achieve the team goal. Morale is low, however, when team members are more interested in personal goals than team goals and the two are not the same. Teams and individuals in teams blame each other for mistakes and relationships of trust go bad.
- Open communications encourage team effort. Each side can appreciate the other's difficulty and understand the interrelationships between the parts of the organisation.
- All conflicts are worked out through discussion and collaboration. Voting is not common and difficult issues will be given time in the interests of consensus.
- Employees enjoy their work more when part of a team structure. Being in the team is a pleasurable experience for the members, they enjoy it.  
The team periodically reviews its own performance by asking questions like; Where did we go wrong? How can we improve this? Didn't we do well there?
- Teams satisfy social needs in individuals. (see Maslow's theory of motivation. The security of the team protects against being ignored or rejected.
- Team goals and individual goals are shared. What is good for the team is good for the member of the team.
- Teams support and help their members at difficult times. Relationships, friendships and feedback are all developed by the team.
- All members share the responsibility for the successes and failures of the team. The members are willing to see praise and recognition go to the team rather than the individual.

### **(C)Methods of Reward**

- **The Time Rate**  
With a time rate, payments are made of a fixed amount per hour, e.g. £7 per hour, for a fixed number of hours per week, e.g. 40 hours. If the employee works more than the fixed number of hours, overtime is paid at different rates above the minimum, e.g. time and a half or double time.  
The system is easy and cheap to operate and is used a lot where the amount of work performed is outside the control of the employee, e.g. office work and assembly lines.
- **Piece Rate**  
Piece rate relates the payment to the number of units produced or jobs completed, the more units produced, the more is earned. There is no security in the system for employees and in an effort to add security but keep the incentive element, the time and piece rate methods are sometimes combined. A productivity incentive is offered

to employees who produce above an agreed amount (quota) while the time rate applies up to the quota (the security element).

- **Fringe Benefits**

Fringe benefits would include 'benefits in kind' (BIK) given to employees in the form of goods or services rather than money. Benefits in kind may be more valuable to the employee than cash payments but there may be tax implications involved. Benefits in kind are used to improve morale and raise the status of the job in the organisation. Monetary examples include profit-sharing schemes, sick pay entitlements, pension schemes, payments made in cash, etc. and non-monetary examples include meal/lunch vouchers, company cars, children's education, benefits, social facilities, sports and welfare facilities or memberships or payments in kind eg. gifts, holidays
- **Profit-Related Pay**

Profit-related pay is an overall scheme where some of the organisation's profit is paid to employees on an agreed basis, e.g. position held. It is paid to motivate the employees to increase the profit by reducing costs and/or increasing output and thus their own earnings. The method helps in the development of group co-operation. The difficulty with profit-related pay is that the profit is not always dependent on the effort of the employees: market conditions are significant. Blaming the employees will de-motivate them and the payments are far removed from the actual work and difficult to calculate in advance.
- **Employee Share Ownership Scheme**

Shares in the business may be given to employees instead of cash bonuses or wages. Many companies have adopted these schemes and they have proven to be a good method of motivating employees, maintaining employee interest in the job and improving organisational communications. There are tax concessions for the schemes.
- **Bonus**

A bonus is a sum of money paid to employees for an agreed task, e.g. for producing units above an agreed limit. The bonus can be paid to both individual employees and groups of employees. The relationship between the payment of the bonus and the effort on behalf of the employee must be close. For a bonus to act as an incentive, it must be agreed and be understandable and fair. It may lose its incentive effect if it becomes an expected part of normal pay.
- **Commission**

Commission is a type of piece rate where payment is made according to value of the amount sold, e.g. payments to a sales person (10%) in proportion to the level of sales achieved. It has the major advantage of directly encouraging sales. It may also be paid to an agent for some service rendered, e.g. the payment to an estate agent for selling property. There is usually little financial risk for the employer or principal because the payment will only be made after the sale. There is little

security for the salesperson in this method so many salespersons receive a basic salary and commission is paid on top of this.

- Promotion

## QUESTION 7

### (A) Sources of new product or services ideas

#### Internal Sources

- **Research and Development department** in the business, staffed with technical experts such as scientists, engineers and technicians.
- Employees improving or developing new products services based on the **existing products** of employers.
- Idea generation from within can be encouraged by **rewarding the staff**, who come up with ideas, with cash bonuses, added fringe benefits, indeed any incentive that encourages the idea generation process (intrapreneurship).
- Idea generation and development techniques such as **brainstorming** are usefully employed.
- Part time **hobbies** or occupations.
- **Community** needs.
- Agents or **distributors** for others.

#### External Sources

- **Changing customer needs.** All changes in society such as new legislation, regulations of various bodies and codes of practice, etc. offer the opportunity to be first in with the new requirements.
- What the competitors are doing and any trends that are developing. **What the competitors are not doing**, i.e. potential customers that are being neglected.
- **Outside research agencies** e.g. professional business advisers and consultants, trade publications and advertising agencies.
- Databases available on computer **worldwide**. The list of ideas in the patent office or research being conducted into product innovations at various educational establishments.
- **Organisations** such as An Bord Trachtala, Forbairt, the Central Statistics Office, county enterprise boards, government departments, business associations all have very useful statistical information readily available which may produce the germ of a successful product or service idea.
- **Product idea centres** are located at all the regional offices of Forbairt and allow access to all the trade statistics on record together with information on new products, sub-contracting and licensing opportunities. Forbairt also has a very successful product development service.

- Products or services that are available in **other countries** but not in Ireland as yet, could be adapted for the Irish market. If, for example a product has no patent it may be freely copied without cost.
- Investigate the needs of businesses and the bigger organisations in the market place. Organisations may be willing to **sub-contract** work such as cleaning or catering, offering a ready-made opportunity for a small business. Permanent sub-contract work is now very common in Ireland with the services being provided under commercial contracts and, in a lot of cases, solely for one firm.
- Request people to submit their ideas, conduct student competitions, public **competitions**, complaints made by existing customers, etc.
- Since most business ideas are second hand or changes to existing products and services, keep a close eye on the **existing market** and look for gaps that can be filled. For example, 'Green' products or 'Low Fat' products. These are simply variations of products which were in existence already.
- Spotting the **future requirements** and needs of the market place will give the edge over the competition and ensure a good market share.

#### Business Activity Groups

- **The Retailing Sector**  
Retailing comprises enterprises like supermarkets, restaurants, garages, boutiques
- **Franchising**  
Franchising is almost like owning your own business but with strict conditions attached. The owner of an idea franchises it, allowing somebody else make or sell their idea, provided they do it in a certain way.
- **Importing**  
You may be able to bring products into the country that are not readily available on the market at the moment or are available at a very high price.
- **Exporting**  
Exporting is a specialist business that has huge potential in the EU and further afield. An exporting business might be ideally based in Ireland.
- **Manufacturing**  
Manufacturing is producing products in Ireland in your own manufacturing facility.
- **Agency**  
Having an agency means selling for a foreign manufacturer or distributor on the Irish market and receiving payment on a commission basis.
- **Import Substitution**  
Locating an imported product on sale on the Irish market at the moment and displacing it with a home-produced product of similar quality and price. Study in detail of
  - the imports lists coming into the country.
- **Provide a service**  
Many service providers/traders are enjoying good growth, especially with services such as professional consultants (banking, marketing, architecture, personnel, etc.) the entertainment industry (show business, films, television, etc.) personal

- services (hairdressing, sport, social), home services (gardening, cleaning, decorating, child minding), business services (printing, design, book keeping etc.)
- **Public Sector Purchasing (Public Procurement)**  
The EU now require that all public bodies such as local and central government publicly advertise all contracts above a certain value throughout the EU. An Irish-based firm will have location advantages which should translate into a competitive price.

## **(B) Elements of the marketing mix**

- **Product**

The product is made up of the detailed characteristics of the item on offer, e.g. its distinctive features, its form, shape and colour. It would include any relevant information on the item for the customer such as its quality, after-sales service, guarantees, brand name and image.

- **Price**

Price is what one pays for a product. It is also the representation of the value of the product to the buyer. If the buyer is happy with the price of the product then the price is right. The price of a product on the market will be determined by: the product's unique properties, the cost of manufacture, the level of competition etc. Enterprises may keep the price of a newly launched product a little lower than the competition's price in an attempt to gain market share. If the particular product is aimed at the luxury end or segment (niche) of the market then the price set may be high and vice versa.

- **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 techniques (methods) are advertising, sales promotion, public relations and personal selling. 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.

- **Place**

There is no point in going to the trouble of locating a target group of customers and then not making the products and services readily accessible and available to that group. The promotion and sale of the enterprise's products is the primary focus and to help with this, channels of distribution such as agents or distributors are used.

## **Any Product or Service**

Product.

Mercedes Benz Coupe

This is one of a range of German made Mercedes cars. Very reliable with a high specification.

It includes a driver's airbags and ABS among its many safety features.

It carries an anti rust warranty.

Good resale value.

Prestige market vehicle.

Price.

It is the top model in its price range and its list price is a competitive (compared to other car makes) from €50,000 - €78,000. Market share pricing.

Finance available. Competitive with similar standard cars from other marques.

Cash customers can avail themselves of a large cash discount.

Aimed at relatively high income earners.

Price includes AA membership, service agreements for years etc.

Promotion

Emphasis is placed on brand loyalty.

Advertised on television and in business and fashion magazines. Targeted market.

Mercedes are sponsors of many prestige events.

Free testing at any Mercedes garage nationwide.

Brand emphasis on safety and reliability and high quality.

Place

Main Mercedes garages distribute - Nationwide sales and service network locally

Geographically dispersed service centres. Worldwide

Reliability, dependability, convenience, service

Purchase directly from Mercedes importer/Agent in Dublin

The Coupe can be imported directly from Germany

Personal Selling