

BUSINESS MANAGEMENT WORKBOOK

ANSWERS

Paul Hoang
for use with
Business Management
4th Edition

FOR USE WITH THE I.B. DIPLOMA PROGRAMME

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for the
INTERNATIONAL BACCALAUREATE

Business Management Workbook Solutions

Paul Hoang

ANSWERS

Unit 1.1

Introduction to business management

Task 1: Complete the missing words

A **business** is a decision-making organization that uses inputs, known as the factors of **production** to produce goods and services. The four factors of production are **land**, **labour**, **capital** and **enterprise**. **Goods** are are physical products, such as pens, televisions and clothing. **Services** are intangible products such as education, health care and foreign holidays.

Production is the process of using factors of production to generate the **output** of goods and services. These are then purchased by **customers** (the people or businesses that *buy* the product) and then used by **consumers** (the end users, whether they are businesses or individuals).

A business **plan** is used as a management tool to report how an organization intends to achieve its goals and objectives. It requires managers to consider the use of marketing, finance and human resources in order to meet these aims and objectives.

Task 2: Vocabulary quiz

a.

| Stage of production |
|---------------------|
| Primary |
| Quaternary |
| Secondary |
| Tertiary |

b.

| Factor of production |
|----------------------|
| Capital |
| Entrepreneur |
| Labour |
| Land |
| Intrapreneur |

c.

| Functional department |
|-----------------------|
| Finance |
| Human resources |
| Marketing |
| Production |

Task 3: Explain ...

- a. Workers vs owners; Level of risk taken; Reward (profit vs pay and remuneration); Accountability vs responsibility.
- b. Ability and willingness to take (calculated) risks; Have good ideas / be creative and original; Passion and be highly motivated; Leadership qualities; Ability to persuade others; Energy to keep going when things get 'tough'.
- c. Growth (financial and professional), earnings, transference (or inheritance), challenges, autonomy in decision making, financial security, to pursue a personal hobby or interest.
- d. Lack of finance; cash flow (liquidity) problems; marketing problems (e.g. brand awareness and brand recognition); Small customer base; legal barriers and problems (further complicated by a lack of knowledge); managerial inexperience; external influences that make new businesses vulnerable.

Task 4: Multiple choice

1. B. Factors of production
2. D. Use a good or service
3. B. Coaching
4. C. Paper
5. D. Value added
6. A. Agriculture, fishing and extractive industries
7. C. Organizes factors of production and takes the risks of decision-making
8. C. The process of making products from the available resources
9. A. Both goods and services
10. B. Private, Public
11. B. Machinist
12. A. Consists of businesses involved in the manufacturing of physical goods
13. B. Capital intensity
14. D. Textiles
15. A. Adding value
16. A. Capital
17. A. Automation has caused a decline in the secondary sector in many countries
18. D. Provide services to the general public
19. B. Engineering
20. C. It requires intrapreneurial skills

Unit 1.2

Types of Organisation

Task 1: Complete the missing words

A **sole trader** is a business owned and run by a single person. Such firms are very common, partly because there are few legal procedures involved in setting up the business. The owner bears all the **risks** of running the business but has full **control**, and gets to reap all **profits** that the business earns. However, the owner also has unlimited **liability**, meaning that he or she may need to sell personal possessions in order to pay off any debts that the business may have.

An ordinary **partnership** is an alliance of between 2 and 20 individual owners who are jointly responsible for the affairs of the business (although the maximum number can vary in different countries). The joint owners will usually sign a mutually agreed contract known as the **Deed of Partnership**. Most, if not all, of the partners face **unlimited** liability for any debts they might incur. Partners that simply place their money into the business as an investment and without any direct involvement in the business are known as **silent** partners. These partners enjoy **limited** liability.

Cooperatives are for-profit social enterprises owned and run by their members (usually employees or customers). Their primary aim is to create value for their members by being socially responsible. They share any profits earned between their **members**.

Non-profit social enterprises are businesses run in a commercial-like manner but without **profit** being the main goal. For example, **non-profit organizations** (NPOs) use their surplus revenues to achieve their social goals, rather than distributing the surplus as profits or **dividends** to shareholders. A **non-governmental organization** (NGO) is a non-profit social enterprise that operates in the **private** sector of the economy, i.e. it is not owned or controlled by the government. However, NGOs do not aim primarily to make a profit.

Companies are owned by **shareholders**, who have limited liability. This is because all limited liability companies are **incorporated** businesses, i.e. the organizations are treated as separate legal entities from their owners. Shareholders get one **vote** for each share that they own in the company. **Private** limited companies tend to be relatively small companies that are owned by family members. In order to become a **public** limited company, the firm has to sell shares to the public for the first time, known as an **initial public offering** (IPO). In return for their investment, shareholders are given a proportion of the company's profits (if any is earned) in the form of **dividend** payments, which are usually paid **twice** a year. The declared payment is paid on each share that a shareholder owns, so the more shares held the higher the total payout will be. Shareholders also buy shares in the hope that there is a **capital** gain, i.e. the share price rises.

Task 2: Vocabulary quiz

| Key term |
|--|
| Charities |
| Cooperatives |
| Flotation (or initial public offering) |
| Microfinance providers |
| Non-governmental organizations (NGOs) |
| Public-private partnerships (PPP) |
| Public sector |
| Silent (sleeping) partner |
| Social enterprises |
| Stock Exchange |
| Unlimited liability |

Task 3: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | T |
| e. | F |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 4: Explain one ...

- Specialisation; Own control; Flexibility; Clear focus; Not having to be accountable to shareholders.
- Provides an opportunity for shareholders to have their say in the running of the company; Allows shareholders to vote for the Board of Directors to run the company on their behalf; Legal obligation to hold Directors accountable for the management and running of the company.
- Businesses owned and controlled by private investors (individuals and businesses); Profit is the key motive for most of these businesses.
- Non-profit social enterprises run for the benefit of others in society; Voluntary support and funding provided for good causes, e.g. child protection or animal welfare; Tax incentives for charitable organizations and for donors.
- State-owned enterprises are owned by the government, i.e. they operate in the public sector; By contrast, a public company is one that operates in the private sector and is owned by shareholders who have limited liability.
- Greater sources of finance than partnerships or sole proprietorships; Easier management and control than being a public limited company; Cheaper to set up than a PLC; Shareholders have limited liability; Privacy (no need to publish detailed annual reports to the public).

Task 5: Multiple choice

- C. There can be more than one employer
- B. Has exclusive responsibility for the running of the business
- B. Continuity
- B. Autonomy in decision making
- D. The various sources of finance available
- B. There are higher risks than working for someone else
- D. Signing the contents of a partnership deed. **This is a recommendation only, rather than a formal requirement**
- D. Spreading workload with other partners

9. D. Memorandum of Association
10. B. Certificate of Incorporation
11. C. States the main purpose of a limited liability company
12. D. The Board of Directors of a private limited company own the business
13. A. An advantage for shareholders is having limited liability
14. C. Public companies operate in the public sector
15. A. Are legally entitled to a share of any profits earned
16. B. Has unlimited liability for its debts
17. B. Have to publish certain financial information to all stakeholders
18. A. Joint stock company
19. A. Earn profits as a social enterprise
20. C. An organization owned by the state or government
21. B. Non-governmental organization
22. B. Cooperatives
23. B. Consultancy service providers
24. C. They are registered as incorporated businesses
25. D. Public transport firms
26. C. Empower entrepreneurs of small businesses
27. D. Spending on state education and healthcare
28. C. International Baccalaureate Organization (this is a NPO, but not a social enterprise)
29. A. Corporate tax refunds
30. B. The products being sold

Unit 1.3

Organisational Objectives

Task 1: Complete the missing words

The **aims** of a business are its long-term goals, which stem from the organization's **mission** statement. Hence, aims are a general statement of a firm's intentions, such as to become the market leader. They tend to be **qualitative** rather than quantitative in nature.

A business tends to find it difficult to satisfy all its stakeholders simultaneously due to their own **conflicting** objectives. For example, shareholders are likely to demand that the business aims for **profit** maximisation, whilst employees will strive to maximise their own **pay** and benefits (thereby potentially reducing the profits of the business).

Organizations are increasingly concerned with the possible impact of their actions on the environment and society. This is largely because of the increased public awareness and concern for our planet's natural environment. Adverse business activity could lead to unwanted publicity from pressure groups. Such negative exposure can damage the **reputation** of the business and reduce customer **loyalty**. Unethical business practices might also adversely affect the firm's suppliers, employees, creditors and investors. Ultimately, ignoring ethics and social **responsibilities** can seriously harm a firm's profitability. Hence, there are ever more driving forces pushing businesses to behave in a **socially** responsible way.

SWOT analysis is a strategic planning that can help managers to reduce the **risks** involved in decision-making. SWOT analysis involves exploring the current position of a product, department or the whole organization in terms of its **strengths** and **weaknesses**, and to identify potential **opportunities** and **threats**. It is also common to find a SWOT analysis within a **business** plan.

Task 2: Match the terms

Read the definitions and match them with the correct business terms.

Table shown contains the correct answers

| | | | |
|----|-----------------------|------|---|
| a. | Aims | iii. | The long-term goals of a business that provide direction for setting its objectives and targets. |
| b. | Mission statement | i. | This declaration sets out the vision of an organization, to provide a shared purpose and direction for all stakeholders of the firm. |
| c. | Objectives | vi. | These are the medium to long-term goals and targets of an organization, e.g. survival, diversification and growth. |
| d. | Social responsibility | ii. | This refers to the obligations that a business has towards its stakeholders and society as a whole. |
| e. | Strategy | iv. | The long-term actions a business takes in order to achieve its aims and objectives (what needs to be done, the resources needed to do it, and the timeframe in which to accomplish it). |
| f. | Vision | v. | The (very) long term desire or aspiration of an organization. |

Task 3: Odd one out

- 3a. Strategic objectives (the others are short-term objectives; they all mean the same thing!)
- 3b. Acquisition (which is a growth strategy; the others are business objectives)
- 3c. To select (the others are functions of organizational objectives)
- 3d. To become the world's market leader (the only organizational aim; the others are objectives)

Task 4: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | F |
| c. | F |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | F |
| i. | T |
| j. | F |
| k. | F |
| l. | T |

Task 5: Explain ...

- a. Easier / cheaper option; It does not have an ethical code of practice; Quick opportunities for profit; Some unethical practices (e.g. offensive marketing or pester power) can be quite effective in boosting sales.
- b. Intended to improve the behaviour and corporate image of a business by taking into account the needs of the organization's stakeholders, e.g. by promoting products with integrity and honesty or by avoiding anti-competitive practices.
- c. Altruism / Feel good factor; Sets a good example to others; Improves corporate image; Tax benefits.
- d. The answer will depend on what country the student resides in; Students should check answers with their teacher(s)!
- e. This can boost employee morale by giving them a sense of belonging and responsibility; motivation, job satisfaction and staff retention are therefore likely to improve.
- f. W, S, T, O (students answers should include justified with explanations).

Task 6: Mission, vision or objective?

Answers

| Vision | Mission | Objective |
|---|---|------------------------------------|
| 6. Source of inspiration | 2. Core values and beliefs | 1. Can be changed easily |
| 8. Strategic planning tool | 4. Provides strategic direction for decision making | 3. Motivational tool for employees |
| 11. The ideal image of the organization in the future | 5. Purpose of the organization | 7. Specific rather than idealistic |
| 12. What the company aspires to be | 9. Rarely reviewed | 10. Reviewed periodically |

Task 7: The Ansoff matrix

- True
- True
- Diversification
- Product development
- Product development
- Market penetration
- Diversification
- False
-

| | | Markets | |
|----------|----------|--------------------|---------------------|
| | | New | Existing |
| Products | New | Diversification | Product Development |
| | Existing | Market Development | Market Penetration |

- A saturated market suggests that sales may experience a decline as a product reaches the end of its life cycle; There will be established market leaders in a saturated market and hence entry might be futile.
- Diversification involves entering new markets with new products – both of which are unfamiliar to the organization as they lack experience and/or know-how.

Task 8: Multiple choice

1. D. Qualitative statements of a firm's strategic direction
2. C. Mission statement
3. B. To maximise profitability
4. D. Vision statement
5. A. Having a high labour turnover rate
6. D. Suggest how goals should be achieved
7. B. An obligation to provide shareholder dividends
8. B. Fringe benefits offered to all members of staff
9. A. Compliance costs are low
10. D. Statutory employment rights
11. C. Setting higher prices to raise profit margins
12. B. Realistic
13. C. A high staff turnover rate
14. C. High levels of staff retention
15. D. Lower interest rates in the economy
16. D. Mergers and acquisitions
17. B. Market penetration
18. D. Product development
19. C. Market penetration
20. D. Product development

Unit 1.4

Stakeholders

Task 1: Complete the missing words

Stakeholders are **individuals**, groups or organizations that have a direct interest in the operations and performance of an organization or are directly affected by its operations. Examples include: **shareholders** (owners), directors, employees, competitors, customers and suppliers.

External stakeholders are those that are not directly involved in a business, but have an interest in the operation of that business. Examples include customers, the **government**, suppliers, the local community and **pressure** groups. By contrast, **internal** stakeholder groups come from within the organization, such as employees, managers and directors.

Different stakeholder groups have different interests in an organization, so this is likely to cause **conflict** in the business. Conflict arises because a business cannot meet all the needs of all its stakeholders at the same time. For example, if customers want higher quality products, then this may come about by firms charging higher **prices**. However, this clearly can upset many customers.

Task 2: Stakeholder groups

| | Stakeholder group |
|----|-------------------|
| a. | Suppliers |
| b. | Shareholders |
| c. | Local community |
| d. | Employees |
| e. | Customers |
| f. | Creditors |

Task 3: Explain ...

- Shareholders own shares in company (i.e. they own part of the organization), so are financial investors in the company (therefore they share any profits or losses of the business). Stakeholders have a direct interest in the activities of a business but do not necessarily own the business.
- The Board of Directors *controls* the running of the business whereas shareholders *own* the company.
- Internal stakeholders are members of an organization, e.g. employees and managers. By contrast, external stakeholders do not form part of the organization, e.g. suppliers and the government.
- Customers are a (or perhaps 'the') key stakeholder group in a business; unhappy customers can provide a source for improvement to ensure that the business survives and thrives.
- Diseconomies of scale; Poor communications / communication breakdowns; Poor organizational structure; Stakeholder conflict.
- Strategic decisions, e.g. M&A, relocation decisions, expansion plans, how much to pay staff, the hiring of executive directors etc.

Task 4: Multiple choice

1. B. Individuals, groups or organizations that are affected by the behaviour of businesses
2. D. Stockholders
3. A. Creditors
4. A. Customers
5. D. Trade unions
6. A. For staff professional development
7. B. The Chinese government
8. D. They receive dividends each year based on the number of shares they hold
9. C. Pressure group
10. B. Deforestation
11. A. To change government economic objectives
12. D. By raising as much publicity and awareness of their cause as possible
13. C. Stakeholder conflict
14. B. Employees
15. A. Create adverse publicity for a business by encouraging customers to shun (avoid or reject) the business
16. A. Conflict
17. A. Industry trade groups
18. B. They offer preferential credit terms to all their customers
19. D. The owners of limited liability companies
20. D. Stakeholder mapping

Unit 1.5

External environment

Task 1: Complete the missing words

STEEPLE analysis stands for the **S**ocial, **T**echnological, **E**conomic, **E**nvironmental, **P**olitical, **L**egal and **E**thical factors that affect businesses, all of which are beyond an individual firm's control. STEEPLE analysis gives managers an overview of the **external** business environment.

STEEPLE analysis provides a simple brainstorming framework of the external opportunities and **threats** faced by a business. It promotes proactive and forward thinking, rather than static opinions based on **intuition** (gut feelings). Hence, STEEPLE analysis enables managers to be more informed and prepared to deal with external influences that affect business operations.

Task 2: Explain why ...

- An increase in the exchange rate makes it more difficult to sell exports, as the price will rise. However, a stronger currency presents an opportunity for firms that import raw materials and components, thereby lowering their production costs.
- Inflation that is under control suggests that the economy is doing well. Hence, higher salaries could have caused the inflation, i.e. sustainable inflation is not necessarily a bad thing.
- Threat: higher production costs for many businesses; there could be some redundancies.

Opportunity: labourers have higher spending power, so this could lead to higher sales revenues in the medium to long term.

- The forces of change are still in force even if a business does not initiate change, e.g. oil crisis, economic recession, war, outbreak of infectious diseases, torrential weather, technological progress, a financial crisis etc.

Task 3: STEEPLE analysis

- The table below shows examples of different external factors that affect businesses. In each case, identify the correct category of STEEPLE for each of the examples below. An example has been done for you.

| External factor | External factor |
|-----------------|-----------------|
| Social | Political |
| Social | Legal |
| Economic | Economic |
| Technological | Technological |
| Legal | Economic |
| Economic | Ethics |
| Political | Environmental |

b. Identify the **type** of external factors (i.e. the STEEPLE factors) that affect businesses from the examples below.

| Type of external influence |
|----------------------------|
| Environmental |
| Political |
| Social |
| Economic |
| Technological |
| Legal |
| Ethical |

Task 4: True or false?

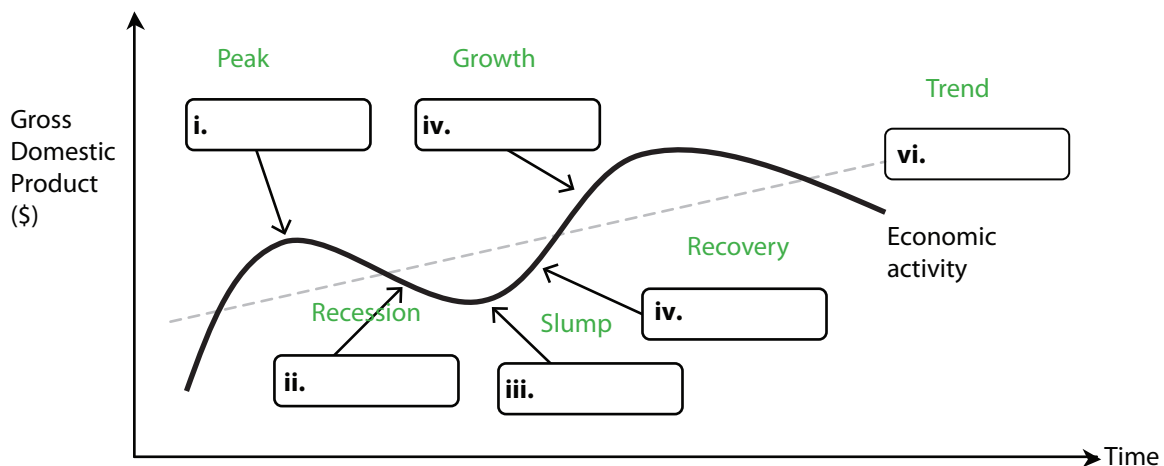
| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | F |
| e. | T |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 5: Vocabulary quiz

| | Key term |
|----|-----------------|
| a. | Tariff |
| b. | Recession |
| c. | Protectionism |
| d. | Monetary Policy |
| e. | Interest rate |
| f. | Inflation |
| g. | Indirect Tax |
| h. | Economic growth |
| i. | Direct tax |
| j. | Business cycle |

Task 6: The economic environment

- a. Higher interest rates increase the costs of loan repayments and loan interest. This therefore leads to lower levels of income available for expenditure, and hence less chance of any inflationary pressures.
- b. A higher exchange rate can mean that exports become less price competitive (leading to a decline in export revenues) whilst imports become relatively cheaper (leading to greater import expenditure).
- c. Higher interest rates tend to attract greater demand (from savers and other investment funds) for the currency, thereby leading to a higher price for the currency, i.e. an increase in the exchange rate. By contrast, savers tend not to be so interested in saving in currencies that offer relatively lower interest rates (thereby having less impact on the exchange rate).
- d. Higher prices in general mean that the country charges escalating prices for both domestic and overseas customers, thereby leading to lower price competitiveness on the international arena.
- e. Higher income tax rates tend to deflate the economy by withdrawing money that is available for people to spend, thereby having less of an impact on demand-pull inflation.
- f.



Task 7: Multiple choice

1. A. Floating exchange rates
2. C. Customs, habits and tastes
3. A. Education and training
4. B. Demography
5. C. Pay huge bonuses to its directors
6. A. Lowering prices to maintain sales revenue
7. D. The removal of controls in a particular industry
8. D. Taxes on income from interest and dividends
9. A. Direct tax
10. B. Excise duties
11. C. Strengthened
12. D. To supply services such as health care to compete with private sector providers
13. C. Taxation and government expenditure policies
14. D. The total value of a country's output during a year

- 15. A. Interest rates
- 16. B. A rise in the prices of vital imported raw materials
- 17. D. Weakened consumer spending
- 18. B. \$297,850 million
- 19. B. Government spending
- 20. B. Decline
- 21. B. Cash-flow problems harming international expansion plans
- 22. D. Social change
- 23. C. 6.25%
- 24. C. 32 million
- 25. C. Raising the minimum wage
- 26. D. Increased resource depletion
- 27. D. Raises tax revenues for the domestic government
- 28. D. Social
- 29. A. Environmental
- 30. C. Employee protection laws

Unit 1.6

Growth and evolution

Task 1: Complete the missing words

Internal growth refers to the increased size of a business by using its own resources, such as **retained** profit. It is also known as **organic** growth. **External** growth occurs when a firm expands by merging with or **acquiring** another firm. This method is also known as **inorganic** growth.

Firms looking for quick growth and expansion will tend to use **external** growth strategies such as purchasing a majority stake in another company. This strategy is known as a **takeover**. By contrast, a **joint venture** is where two or more companies share the financial risks and rewards of a business project. The firms jointly establish and own a **new** business.

One benefit of organizational growth is **economies** of scale. These are **cost** savings due to large scale of business operations, i.e. **average** costs of production fall as the level of **output** increases. The main types of economies include financial, managerial, purchasing (or commercial) and marketing. The **optimum** (or best) size for a business depends on its aims, the structure of its costs, and the size of the market.

Globalization refers to the growing degree of **integration** and interdependence of the world's economy. This means that decisions and actions taken in one part of the world will have direct effects on those in other parts of the world. A key contributing factor of globalization is the growth and expansion of **multinational companies** (MNCs). There is increasing pressure for these global businesses to market their brands worldwide. **Technological** progress, such as e-commerce, has also contributed to globalization by improving consumer access to a huge range of markets.

Globalization has both positive and detrimental effects on business growth and evolution, e.g. it stimulates **competition** as there are more foreign businesses and products competing in the domestic market. At the same time, the **deregulation** of trade restrictions has allowed domestic businesses to enter overseas markets, thereby enabling these firms to benefit from economies of scale (lower average **costs** as a firm expands its operations) and a larger **customer** base.

Task 2: Vocabulary quiz

Identify the key terms from the clues given. *Hint:* the answers are in alphabetical order.

| Key term |
|-----------------------------|
| Acquisition |
| Average cost |
| Conglomerates |
| Franchises |
| Horizontal integration |
| Inorganic growth |
| Joint venture |
| Merger |
| Multinational company (MNC) |
| Strategic alliance |

Task 3: Economies and diseconomies of scale

- a. There are higher barriers to entry in the pharmaceutical manufacturing industry, e.g. licensing, set-up costs, R&D, patents and government restrictions.
- b. Traffic congestion; Soaring rents and commercial property prices; Higher market wage rates; Higher minimum wage rates, etc.
- c. At 400 units, $AC = 50,000 \div 400 = \$125$
At 500 units, $AC = 60,000 \div 500 = \$120$
Therefore, the firm has experienced economies of scale, i.e. lower unit costs (from \$125 to \$120 per unit) following an increase in the level of output.
- d. The fixed costs (TFC) are spread over an increasingly larger level of output and hence the average fixed costs ($TFC \div Q$) must fall.

Task 4: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | T |
| e. | F |
| f. | F |
| g. | T |
| h. | F |
| i. | T |
| j. | T |
| k. | F |

Task 5: Explain the difference between ...

- a. The franchisee is the buyer of a franchise, whereas the franchisor is the seller.
- b. Acquisitions (or takeovers) tend to be hostile and occur when the buyer has purchased a controlling interest (majority stake) in the target firm. Mergers occur when two (or more) firms agree to amalgamate as a new company.
- c. External economies of scale are cost-saving benefits of large-scale operations arising from outside the business, due to its favourable location or general growth in the whole industry. Internal economies are within the control of the individual business.

Task 6: Multiple choice

1. C. Management control being weakened with a larger workforce
2. A. Late deliveries due to congestion in busy locations
3. C. Internal diseconomies of scale
4. A. Generate lower unit costs of production
5. C. Specialised back-up services available in a particular region
6. C. Industry, location
7. C. Internal diseconomies of scale
8. C. Internal diseconomies of scale
9. D. There is sufficient market demand for the product
10. B. Focused marketing
11. H. Horizontal integration
12. C. An acquisition
13. D. To minimise communication problems
14. B. Profits from the strategic alliance can be shared equally
15. H. Strategic alliance
16. A. Economies of scale that can be achieved
17. A. Degree of management control
18. A. A firm acquires or merges with another firm at the same stage of production
19. D. Organic growth
20. C. Right to trade using another firm's products, brand name and logo
21. B. Horizontal integration
22. B. Labour turnover
23. D. Suitable for firms looking to grow rapidly
24. B. Choice of finance options
25. A. A joint venture
26. D. The franchisors have little, if any, control over the way the business operates
27. D. The corporate culture
28. B. Changes to the corporate identity
29. B. Market development
30. B. Enjoy economies of scale
31. D. They can grow through diversification
32. A. Brand acquisition
33. A. Different business etiquette and customs
34. A. Communication across geographical locations
35. A. Economies of scale

Unit 1.7

Organizational planning tools [HL Only]

HIGHER LEVEL

Task 1: Complete the missing words

Organizational planning tools provide a systematic framework to deal with problems, concerns or issues faced by a business so that rational and sound decisions are made. For example, **force field** analysis is used to deal with the forces for and against change. A **decision tree** is a visual representation of the probable outcomes (in monetary terms) resulting from the various decisions that a business can pursue. Ishikawa's **fishbone** diagram helps to establish the root causes of a business problem. **Gantt** charts are used to minimise the resources needed in order to complete a project in the **shortest** time possible. Most decision making models consider the various opinions and beliefs of a firm's **stakeholders** (such as the shareholders, managers and employees).

Business decisions are not always made purely on facts and quantifiable reasoning. Instead, key decisions are often based on gut feelings, emotions, **intuition** (or instinct) and whether managers are comfortable with their decisions, irrespective of any potential financial gains. Nevertheless, managers tend to consider both the benefits (financial and non-financial) and the costs before making any final decisions. Decision-making is also likely to be affected by various **management** styles, e.g. it is probable that autocratic managers make decisions in a different manner from democratic or laissez-faire managers.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | F |
| c. | T |
| d. | T |
| e. | T |
| f. | T |
| g. | F |
| h. | T |
| i. | F |
| j. | T |

Task 3: Multiple choice

1. A. They are based on important intuitive and qualitative factors that affect decision making
2. D. They ignore the financial costs of investment decisions
3. D. It places a monetary value on key decisions
4. C. Shocks in the external environment
5. D. Identify key barriers to change
6. B. Subjective as weights can be skewed in favour of management preferences

7. **D.** Hold a staff meeting to explain why the changes are necessary
8. **B.** Gaining the support for change from all staff members
9. **F.** Driving forces
10. **A.** Adaptive cultures
11. **A.** Empowerment of staff
12. **A.** Individuals being unable to reach their higher level needs, such as recognition or self-actualization
13. **A.** The time scale is shown on the vertical axis of the chart
14. **C.** Tasks that can be carried out simultaneously are combined on a bar in the chart
15. **B.** Identify the shortest amount of time needed to complete a particular project

Unit 2.1

Human Resource Planning

Task 1: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | F |
| i. | T |

Task 2: Vocabulary quiz

Human resource management

| Key term |
|-------------------------|
| Absenteeism |
| Curriculum vitae |
| Dismissal |
| Human resource planning |
| Job analysis |
| Labour turnover |
| Person specification |
| Productivity |
| Recruitment |

Training, appraisal and dismissal

| Key term |
|----------------------|
| Appraisal |
| Behavioural training |
| Gross misconduct |
| Induction training |
| On the job training |
| Summative appraisal |

Task 3: Explain ...

- a. Psychometric tests focus on the behavioural aspects of a person (applicant) whereas aptitude tests focus on the person's ability/skills.
- b. T&D help to boost morale as employees feel valued, and hence motivated; T&D improves productivity and staff retention; T&D reduces wastage and inefficiencies in the workplace.
- c. Training allows employees to learn new skills and to be in a better position to adapt to the changing nature of businesses; Development allows an employee to personally progress/advance in her/his career.
- d. A formal meeting between an employee and his/her line manager to assess performance in line with the employee's job description and performance targets.
- e. This will depend on a range of factors such as: the nature of the job (e.g. teaching or telesales), the culture of the organization, management styles and so forth.
- f. Can boost staff morale (workers have opportunities to progress within the organization and to develop their careers); Lower down-time (adjustment time) due to shorter induction and training period; Less risk in selecting the wrong candidate as the employer knows the employee (personality, abilities and skills); Relatively cheaper method of recruitment.
- g. Introduces 'new blood' (new ideas / creativity) to the organization; Internal staff may not be available/suitable; Larger pool of applicants (hence improving chances of hiring the ideal candidate with the right experience and a better skills set).
- h. Can be cheap as the firm uses in-house specialists to give the training; Relevant as the training is targeted at issues directly relevant to the firm's needs; There are less disruptions to daily operations as the trainee is still 'at work' rather than being overseas attending a training course, for example; Can help to establish relationships at work as team working is involved.
- i. Trainees may pick up bad working habits of the trainer; Internal trainers may lack training experience and skills; Trainers may not be able to conduct their own work whilst giving the training.
- j. Maintaining continuity and stability in the workplace; Management time and resources saved by not having to recruit, select and induct new (replacement) staff; Trade secrets not being leaked to rival firms who headhunt the firm's workers.

Task 4: High or low?

- a. Low – because high absenteeism is a sign of low morale; low absenteeism also improves productivity and reduces costs.
- b. Low – because high labour turnover leads to higher costs of recruitment (and retention); There is also greater down-time when inducting new staff; There are concerns/issues about continuity/stability/productivity if a high degree of staff leave the workforce.
- c. High – because this represents improved efficiency, lower average costs of production and hence greater competitiveness.
- d. Low – because wastage is inefficient and leads to re-working, which raises costs; High wastage levels may also be associated with poor quality which can be damaging for a firm's corporate image.
- e. High – because this represents high staff morale, motivation and employee loyalty; Recruitment costs are reduced; It also suggests that there is a strong corporate culture; It can improve the organization's corporate image for being a 'good' employer.

Task 5: Multiple choice – Workforce planning

1. B. Payment of wages and salaries
2. D. Promoting employees
3. B. Panel interviews
4. C. Retention
5. A. Ability to balance personal life and work life
6. C. The absence of certain company policies such as dress code
7. A. A decline in the dependent population
8. A. An ageing population
9. A. 21.05%
10. B. High occupational mobility of the workforce
11. D. More people are working at the office rather than from home
12. B. Offshoring
13. E. Appraisals
14. A. Government legislation
15. D. Re-shoring
16. C. Occupational immobility
17. C. Team working
18. D. They must work a minimum number of hours as required by their employer
19. C. Retention
20. D. Recruitment agency

Task 6: Multiple choice – Recruitment and selection

1. C. Looks at the essential skills and knowledge required to carry out a specific job role
2. C. Responsibilities
3. D. Skilled in customer relations
4. D. The required level of teaching experience
5. D. Skills and qualifications
6. C. The internal promotion of a worker
7. C. Vacancies, description, specification
8. C. To avoid diseconomies of scale
9. D. Situational based questions
10. B. Ability to perform certain tasks in the job
11. A. Detailed questions can be asked
12. C. Low score in aptitude assessment
13. C. Taller hierarchical structures
14. D. The wages needed to pay newly recruited staff

15. D. Reference
16. A. Attracting as many applicants as possible to apply for the job
17. A. They can be published internally and externally
18. B. Curriculum vitae
19. B. Assess the suitability of a candidate to fit into the culture of the organization
20. A. A potential lack of new ideas and creativity in the business
21. C. A staff bulletin notice
22. A. Aptitude testing
23. D. Psychometric, Attitude
24. D. Recruitment agency
25. B. Recruitment and induction costs are reduced

Task 7: Multiple choice – Training, appraisal, dismissal and redundancy

1. A. Conducting an appraisal meeting
2. D. Upgrading of ICT skills needed for the job
3. D. All of them
4. A. Attending specialist conferences
5. D. Work shadowing
6. C. Conducted by specialist trainers not necessarily available at the workplace
7. A. Gain a higher budget allocation for the HRM department
8. A. 360-degree feedback
9. A. Some traits that are scaled may not be directly relevant to job performance
10. B. First-aid training course
11. C. Offshoring
12. B. Grievance
13. C. Incompetence
14. B. Constructive dismissal
15. D. Retrenchment occurs due to no fault of the employee
16. B. Redundancy
17. D. Retrenchment
18. B. Redeployment
19. C. Mentoring
20. C. Outsourcing

Unit 2.2

Organizational structure

Task 1: Complete the missing words

The **span** of control refers to the **number** of workers that a line manager is responsible for. For example, the manager of a large department will have a **wide** span of control. A manager with a **narrow** span of control means that he or she is responsible for relatively fewer people. There has been much debate about the **optimal** (or best) size for a manager's direct span of control. There is no consensus on this as there are advantages and disadvantages to both wide and narrow spans of control.

A **flat** hierarchical structure tends to give more responsibility to workers, so can therefore lead to a higher level of motivation. **Delegation** occurs when a line manager passes on **authority** to others to perform a role or task. The line manager retains overall **responsibility** but the work is carried out by empowered subordinates. In contrast, a **tall** organizational structure offers greater opportunities for promotion, closer management and supervision, **longer** chains of command and a **narrower** span of control.

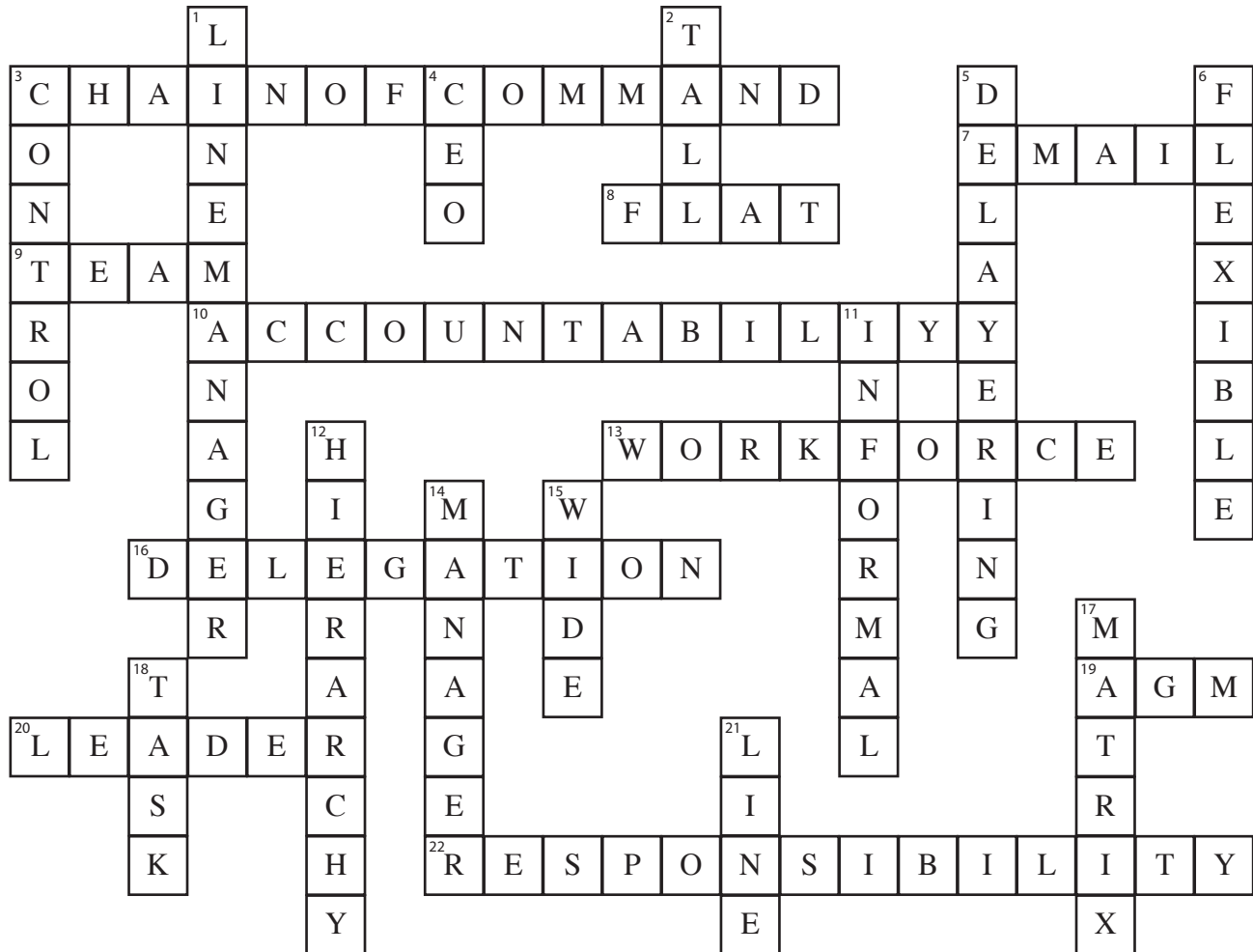
Charles Handy's **shamrock** organization theory suggests that organizations face continual change and hence need to be able to adapt accordingly. The changing organization comprises of three 'leafs' of workers: **core** workers, peripheral workers and outsourced workers.

Communication is the transfer of information from one party to another. Managers spend a significant part of their time communicating with both internal and external **stakeholders**. Effective communication enables managers and workers to have a better understanding and control of what they do. However, cultural differences have an impact on communication in an organization. For example, language proficiency, both **written** and oral, is a highly valued communication skill in today's ever-more competitive labour market. Cultural ignorance can cause offense to others and can cause messages to be misinterpreted or misunderstood. **Innovation** in communication technologies also have an impact on communication in organizations, e.g. **Internet** technologies have reduced the cost of domestic and international communications.

Task 2: Explain two reasons why ...

- a. Improves/speeds up communication; Cheaper due to less layers (of management); Cheaper because core staff receive full benefits whereas peripheral outsourced workers do not; Downsizing means a general reduction in staffing numbers (cost-saving benefits); The move towards flexible working practices means less of a need for traditional hierarchical structures.
- b. Empowerment of staff; Some people are motivated by taking on more responsibility; Sense of achievement/pride/worth; Staff may feel they are trusted and valued by management.
- c. Informal organizations can help to promote a sense of belonging in the workplace; Informal groups are a good source of spreading and receiving messages; Knowledge and skills are unevenly spread out in an organization and the use of informal networks can help to identify and exploit different sources of knowledge and skills.
- d. Staff may have some uncertainties about prioritising tasks when they have more than one line manager; Team members from different departments might not get on with one another; Difficulties in controlling team members who have conflicting interests and priorities.

Task 3: Crossword



Task 4: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | T |
| e. | F |
| f. | T |
| g. | F |
| h. | F |
| i. | T |
| j. | T |

Task 5: Distinguish between ...

- a. Accountability works upwards in an organizational chart, i.e. an employee is accountable (answerable) to his /her line manager. By contrast, responsibility works downwards, i.e. managers are responsible for their subordinates.
- b. Directors are executive members of the Board (of Directors) who are concerned with long term strategic plans of an organization, whereas managers are more concerned with the daily operations of the business.
- c. Hierarchical structures are tall with many levels/ranks of responsibility; Flat structures have fewer levels thereby giving managers a greater span of control.

Task 6: Multiple choice

- 1. A. Directors
- 2. A. Chief Executive Officer
- 3. C. Hierarchy
- 4. B. It is more cost effective due to less hierarchical levels.
- 5. C. Shorter chains of command
- 6. D. Suitable when employees are multi-skilled
- 7. C. Passing responsibility and authority away from the Board of Directors to individual departments
- 8. C. Delegation
- 9. C. Informal
- 10. A. Informal groups
- 11. C. Reduced bureaucracy
- 12. C. Project-based structure
- 13. B. Bureaucracy
- 14. C. Centralization
- 15. C. Improved control
- 16. A. Conflicting interest from having more than one line manager
- 17. B. Core staff
- 18. D. Peripheral staff
- 19. C. Downsizing
- 20. C. The chain of command in the organization

Unit 2.3

Leadership and management

Task 1: Complete the missing words

Management is the process of getting things done through other people in order to achieve the **aims** and **objectives** of a business. This is likely to involve planning, organizing, co-ordinating, commanding and controlling the various operations and **resources** within a business.

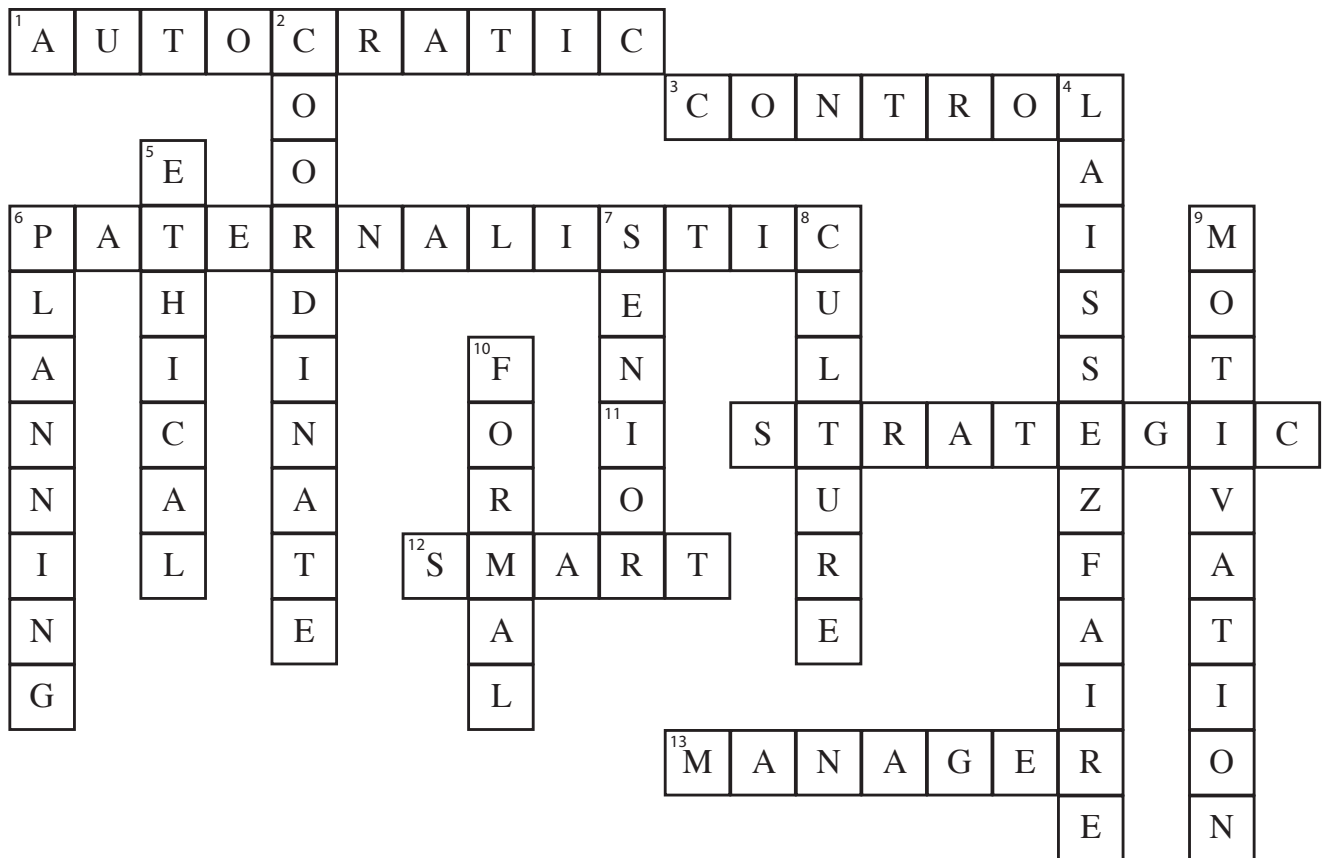
Managers and leaders adopt different **styles** to tackle organizational objectives and strategies. For example, **autocratic** leaders make decisions independently of others and delegate very little, if any, responsibility to their subordinates. By contrast, **democratic** leaders encourage others to be involved in decision-making (by a process of consultation and consideration of the views of the workforce) before they implement any changes. **Laissez-faire** leaders are those who have minimal direct input in the work of their staff. Instead, they allow subordinates to make their own decisions and to complete tasks in their own way. **Situational** leadership also suggests that managers and leaders must be able to change and adapt their style to different situations. Managers may adopt a **paternalistic** approach when inducting new staff or when dealing with staff with personal difficulties.

There are various factors that influence a person's style of management and leadership. These influences include: the nature of the **task** (e.g. whether it is routine or a major undertaking that requires strategic leadership), the nature of the **individual** (e.g. his/her experience, qualifications, training and personality) and the organizational **culture** (i.e. the 'way' things are done in the organization).

Task 2: Explanations

- a.
 - The character, experience and ability of the leader
 - Cultural norms - the person and/or the staff may be used to an authoritarian culture
 - A high degree of importance and urgency of the decision / task
 - Inability of (unskilled) subordinates to do their work without such a leadership style.
- b. 'Over-managed' suggests that the roles of managers and leaders are not clearly distinguished and that staff are unable to take on any initiative to do their jobs, i.e. employees might not be given opportunities to excel. 'Under-led' suggests that leadership is needed and the staff lack direction and/or sense of purpose.
- c.
 - Establishing a clear vision that provides all employees with direction of where the organization is heading towards
 - Clarifying the meaning of the vision through effective communication
 - Building trust with the workforce in order to motivate people towards achieving the organization's objectives
 - Being flexible in their management and leadership in order to adapt to the changing business environment.
- d. Not necessarily – especially if the leader is seeking advice/feedback from trusted and highly competent senior staff. Consultation with employees or key personnel might also be a form of motivation for the staff who feel that they have some input in the strategic direction of the organization. Shared leadership in large organizations can be important due to the scale of their operations and the level of risks involved in decision-making.

Task 3: Management and Leadership Crossword



Task 4: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | T |
| e. | T |
| f. | T |
| g. | F |
| h. | T |
| i. | F |
| j. | F |
| k. | T |

Task 5: Multiple choice

1. C. Managers conform to the organizational cultures
2. D. Training and developing people
3. C. Laissez-faire
4. A. Autocratic
5. D. Useful when working with highly skilled workers
6. B. An unexpected crisis
7. D. Trust their employees
8. A. Delegate much, if any, responsibility to subordinates
9. A. Democratic
10. C. Specialisation and division of labour
11. A. Autocratic
12. B. Delegation and empowerment
13. D. Democratic
14. A. Centralized decision-making
15. A. Controlling people
16. C. Paternalistic
17. D. Situational
18. B. Laissez-faire
19. A. Financial budgets
20. B. Democratic

Unit 2.4

Motivation

Task 1: Complete the missing words

Motivation refers to the **willingness** (or desire) to work or to complete a particular task. This drive can come from the satisfaction of work itself (such as teaching or photography) and/or from the desire to achieve one's **goals** (such as to earn money, to gain recognition or to accomplish greatness). Methods of motivation can be classified as **financial** methods (e.g. salaries, commission and profit-related pay) and **non-financial** methods (e.g. empowerment, teamwork and job enrichment).

Poor motivation can be costly to a business because absenteeism, labour **turnover**, lower **productivity** (output per worker), wastage and disciplinary problems are likely to increase. By contrast, high levels of motivation lead to job **satisfaction** and improved industrial **relations**.

Abraham Maslow's theory of motivation differs markedly from that of F.W. Taylor's in that **Maslow** considered the human side of work. He put forward the theory of a hierarchy of human needs which have to be fulfilled in order to motivate a person. At the base of the hierarchy are **physiological** (basic) needs and at the top of the hierarchy are **self-actualization** needs.

Herzberg argued that **hygiene** factors must be met to prevent dissatisfaction, but they alone do not motivate workers. Having a well paid job but without a sense of recognition or opportunities for **advancement**, Herzberg argued, does not motivate an individual. By contrast, **motivators** are the factors that lead to the psychological growth of workers, and hence increase job **satisfaction** and performance at work.

Task 2: The theorists' theories

a.

| Hygiene factors | Motivators |
|-------------------------------------|---------------------------|
| Administration and company policies | Achievement |
| Job security | Advancement |
| Paperwork | Opportunity for promotion |
| Rules and regulations | Recognition |
| Supervision | Responsibility |
| Wages | Self realisation |

b.

| Self-actualisation | Esteem needs | Love and belonging needs | Safety needs | Physiological needs |
|--------------------|------------------|--------------------------|----------------|---------------------|
| Accomplishment | Achievement | Acceptance | Job security | Basic necessities |
| Develop fully | Reputation | Affection | Predictability | Biological needs |
| Fulfil potential | Respect | Fitting in | Stability | Pay |
| Personal growth | Responsibilities | Friendship | Steady job | Survival |
| | Status | Group identity | | |

2.4 Motivation

c.

| D.H. Pink | J.S. Adams |
|--------------|----------------------|
| Autonomy | Effort versus Reward |
| Drive theory | Equity theory |
| Mastery | Perceived fairness |
| Purpose | Social comparison |

d. Name the motivational theorist from the given clues.

| Theorist |
|----------|
| Adams |
| Herzberg |
| Maslow |
| Pink |
| Taylor |

Task 3: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | T |
| i. | F |
| j. | F |

Task 4: Vocabulary quiz

| Key term |
|-------------------------|
| Commission |
| Empowerment |
| Fringe benefits |
| Job enlargement |
| Job enrichment |
| Job rotation |
| Performance related pay |
| Piece rate |

Task 5: Distinguish between ...

- a. Gross pay refers to income before taxes are deducted from the employee's pay whereas net pay is the actual pay received after taxes and other deductions have been made.
- b. Overtime pay refers to additional time worked over and above an employee's contracted working hours (e.g. extra hours at the weekends or on public holidays) thereby earning a higher wage rate. By contrast, bonuses are paid to employees and managers who meet or exceed their performance targets. Overtime encourages people to work longer whereas bonuses motivate employees to work harder.
- c. Time-based payment systems refer to payments made to staff based on receiving a basic rate of pay per time period, e.g. \$10 per hour, \$100 per day or \$2,500 per week). The pay is not directly related to the level of output or productivity.
- d. Job enrichment is used to make a job more interesting and challenging, perhaps by taking on more responsibility at work. Job enlargement means the worker has a greater number of tasks and jobs to complete (e.g. job rotation), thereby theoretically reducing monotony and boredom.
- e. Movement occurs when a person does something because s/he is obliged to, perhaps because it is part of their job, i.e. movement is based on extrinsic incentives. Motivation, however, occurs when a worker does something because she or he actually wants to (even if the person doesn't have to do it), i.e. it is based on intrinsic motivation.

Task 6: Explain ...

- a. **iii. Staff retention**
This refers to the ability of a business to hold onto its staff. In general, the higher the rate of staff retention, the lower the costs of recruitment.
- b. Praise and recognition; Improved working conditions; Team working opportunities; Empowerment; Job enrichment; Job enlargement; Job rotation; Training & development opportunities.
- c. Absenteeism is likely to fall; Workers are more likely to feel valued by their employers, thereby boosting morale and employee loyalty.
- d. It increases the complexity or challenge involved in the job (helping workers to feel a sense of achievement and to meet ego needs), rather than simply providing more (variety of) work to do. Of course, not all workers strive for job enrichment though as this can bring about added workload, pressures and stress.
- e. In many countries, pension contributions are a statutory requirement so all employers have to provide these (hence it does not motivate in itself); Pensions as a motivator also depends on the age of person (those new to the workforce versus those about to retire).
- f. Not all employees are eligible for share options; The allocation may be insignificant (shop floor workers versus senior executives, for example); The share price offered might not be attractive; The value of the share options may go up or down, thus can create a sense of insecurity; It will also depend on the risk profile of the employee (risk takers versus those who are risk averse).
- g. Grievances at work (complaints, injustices and accusations) suggest that employee-employer relations at work are far from perfect and hence this reduces the level of motivation in the business; Poor punctuality suggests workers are not very keen/dedicated (again, causing motivation to be low).
- h. **i. Autocratic**
Suitable during a crisis or situation when strategic direction is needed, because it provides a sense of security; Also tends to work with unskilled workers who need direction/supervision.

ii. Democratic

Suitable when workers are skilled and when managers trust their staff, because workers feel their opinions are heard and have some input into the decision making process.

iii. Paternalistic

Suitable when staff are new to an organization or within entrusting teams, because workers feel that the organization cares/looks out for them.

i. Two advantages to a business that encourages teamwork.

Division of labour and the associated gains in productivity; Spreading workloads (less burden for individual staff members); Increased productivity; Synergy (problems can be solved easier and ideas can be more creative); Group dynamics – greater range of skills, expertise and knowledge; A form of non-financial motivation that promotes a sense of belonging (Maslow's social needs) and boosts employee morale.

Task 7: Odd one out – Herzberg

- a. Work conditions (others are Motivators in Herzberg's model)
- b. Responsibility (others are Hygiene factors according to Herzberg)
- c. Company policies (others are Motivators in Herzberg's theory)

Task 8: Multiple choice – Motivation

- 1. D. To reduce absenteeism
- 2. C. Labour turnover
- 3. A. Chun Hoi delegates his work to an assistant as he attends all-day meetings with his team of managers
- 4. D. F.W. Taylor
- 5. C. Job satisfaction
- 6. C. Workers are motivated by the working environment
- 7. B. Piece rate payment systems
- 8. D. Workers should specialise so that they can master their craft
- 9. C. Managers should closely monitor, control and supervise employees
- 10. D. Salaries
- 11. C. Recognition
- 12. B. Hygiene factor
- 13. C. Recognition
- 14. A. Lower level needs do not have to be satisfied in order for people to be motivated
- 15. D. Television celebrities
- 16. A. Employment contracts
- 17. C. Social

18. C. Fairness exists when employers recognise efforts with rewards
19. C. Mastery
20. B. Job enrichment
21. B. Delegates decision-making authority to subordinates
22. B. The costs of recruitment and training
23. B. Increased rivalry among the workforce
24. D. Training and development opportunities
25. D. It may encourage employees to be less productive

Task 9: Multiple choice – Motivation in practice

1. C. Overtime is paid at a rate higher than the wage rate for any extra hours worked
2. C. Piece Rate
3. C. Overtime pay
4. D. Workers may ignore quality due to the emphasis on the speed of work
5. A. Different genders
6. D. Time based
7. D. \$682.50
8. B. \$29,640
9. C. Profit related pay
10. C. Job enrichment
11. B. Giving workers more complex tasks to do
12. D. Remuneration package
13. D. Shorter decision-making time
14. B. Empowerment
15. D. Job empowerment is granted to these employees
16. A. It acts as an incentive to work
17. B. Job enlargement
18. A. There is difficulty in differentiating between the productivity of workers
19. D. Medical allowances
20. C. Salaries

Unit 2.5

Organization and corporate culture [HL Only]

Task 1: Complete the missing words

Corporate culture refers to the shared **beliefs**, values and attitudes of the people within an organization. These norms subsequently determine the way in which the business operates on a daily basis. It also underpins corporate **strategy** and influences the organization's corporate image. Senior management will seek to create a positive organizational culture in order to **motivate** workers to deliver a first-rate product or service to their customers. If people are united and committed to the organization's **mission** statement, then a **strong** corporate culture will be developed.

Culture **clashes** exist when there is **conflict** or incompatibility between two or more cultures within an organization. This can exist when firms merge, when a business **expands** overseas (if workers are ignorant of international cultural differences) or when there is a change in **leadership**.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | F |
| d. | T |
| e. | T |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | F |

Task 3: Multiple choice

- C. The set of beliefs and values held by the people within an organization
- A. Ability to fit into a particular culture
- B. Executives, employees
- B. Since team norms are well established so do not change over time
- A. A culture gap
- B. Profits are in decline
- A. A significant event, such as a financial crisis, has occurred
- B. Misunderstandings and conflict
- B. Power culture
- C. Inert cultures
- A. Individualism versus collectivism
- C. Tough guy macho culture
- B. A common language of communication within the organization
- A. Centralized decision-making, whereby managers keep hold of authority and control
- D. Past rivalries between workers

Unit 2.6

Industrial and employee relations [HL Only]

HIGHER LEVEL

Task 1: Explain one reason why ...

- The organizational culture helps to shape the behavioural norms in a workplace and this can either improve or hinder working relations, e.g. a trusting and open culture versus one based on exerting power to get things done.
- Miscommunications; Misunderstandings; Low morale / poor working conditions; Management and employees have conflicting wants and needs.
- To protect self interest in the workplace; To enjoy benefits of collective (rather than isolated) bargaining; To aid conflict resolution; To improve the conditions of work (via representation for its members).
- Answers should be based on the argument that human resources are the most valuable assets in an organization; Conflict is a barrier to effective communications and hinders productivity; Conflict not only damages working relationships but also the reputation of the organization.
- Legislation has weakened the power of trade unions; Structural changes (from heavy industrial manufacturing towards the services sector) have reduced union numbers; The power and image of many trade unions have deteriorated, making membership less attractive/appealing.
- Those who have low or no concern for the other party's needs/wants may use avoidance as a method of conflict resolution, choosing to 'agree to disagree' rather than provoking matters even further.

Task 2: Explain the difference between ...

- Conciliation involves two parties in a dispute agreeing to use the services of an independent mediator to help in the negotiation process. Arbitration goes one step further and involves an independent arbitrator deciding on an appropriate outcome to the dispute.
- Consultation refers to the process of asking employees for their views on key issues or problems and takes place before negotiations commence. Negotiation refers to the bargaining process whereby separate parties attempt to achieve a mutually acceptable (win-win) outcome.
- Closure is an extreme method used by managers to deal with industrial action by closing the business. This means there is no work for the staff, forcing them to renegotiate. Lock-outs occur when the employer temporarily stops employees from working during an industrial dispute, perhaps by hiring security guards to prevent employees from entering the premises. Again the purpose is to force workers to renegotiate.
- Industrial action is the general term used to refer to the activities taken by employees who are disgruntled by working conditions and practices. Strike action is an extreme example of industrial action which involves employees refusing to work.
- Work to rule occurs when employees follow all the policies and procedures of the employer with the intention of slowing down production. By contrast, go slows refer to the act working at the minimum pace allowable (under the workers' employment contracts) in order to reduce productivity.

Task 3: Multiple choice

1. A. Compromises between different stakeholders
2. B. Higher capacity utilization
3. B. Renegotiations
4. C. Mediation
5. A. Government legislation
6. D. Work-to-rule
7. D. Industrial relations
8. B. Collective bargaining
9. B. Overtime ban
10. B. Litigation
11. C. Settling disputes by using an agreed third party whose decision is legally binding
12. C. Represent the views and interests of businesses within a specific industry
13. A. Industrial democracy
14. A. Employer representatives
15. A. Conflict resolution

Unit 3.1

Sources of finance

Task 1: Classification of assets and liabilities

| Category | Asset | Liability | Expense | Revenue |
|--------------------------|-------|-----------|---------|---------|
| Bank interest receivable | ✓ | | | ✓ |
| Bank loan interest | | ✓ | ✓ | |
| Bank loans | | ✓ | | ✓ |
| Bank overdrafts | | ✓ | | ✓ |
| Debentures | | ✓ | | ✓ |
| Insurance premiums | | ✓ | | |
| Motor vehicles | ✓ | | ✓ | |
| Rent accruals | | ✓ | ✓ | |
| Retained profits | ✓ | | | ✓ |

Task 2: Vocabulary quiz

| Key term |
|-----------------------------|
| Venture capital |
| Revenue expenditure |
| Ordinary shares |
| Mortgage |
| Internal sources of finance |
| Initial Public Offer |
| Hire purchase |
| Debentures |
| Capital expenditure |
| Business angels |

Task 3: Outline the differences between ...

- Capital expenditure (investment) is spending on fixed assets for the long term, e.g. buildings and machinery. By contrast, revenue expenditure is spending on items needed for the daily running of a business, e.g. raw materials and wages.
- Short term finance (e.g. an overdraft) is needed to pay for the daily running of a business, i.e. to fund revenue expenditure. It is paid back within 12 months, so short term finance represents less risk for lenders. Long term finance (e.g. a mortgage) is generally used for spending on fixed assets and investments that pay back over a longer period of time, e.g. 10 years. Hence, this represents more risk.
- An overdraft is a short term source of finance whereas bank loans are medium to long term; Overdrafts are technically repayable 'on demand'; Customers have to bank with the particular organization to qualify for an overdraft but customers do not have to be a bank customer to qualify for its loans; The interest rate charged on bank loans tends to be lower, although collateral (security) is often required.

- d. A mortgage is backed by security (collateral) to the lender in case the borrower defaults on the loan. As this reduces the risk to the lender, mortgage interest rates are generally lower than those charged for loans.
- e. Owners of ordinary shares have voting rights, whereas debenture holders do not; Shareholders are the owners of a company, whereas debenture holders are not (debentures are a form of long term loan); Debenture holders are guaranteed their return (interest payments) whereas shareholders are not; Share capital is an internal source of finance for companies whereas debentures is an external source of finance.
- f. Debt finance (e.g. bank loans or debentures) refers to interest-bearing external sources of finance that increase the borrower's level of gearing. Equity finance (share capital) is an internal source of permanent capital that does not bear any interest.
- g. Owners' capital comes from internal stakeholders, including shareholders' funds. By contrast, loan capital comes from external sources, thereby increasing a firm's level of gearing and also bears interest.

Task 4: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | F |
| c. | T |
| d. | F |
| e. | T |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | T |
| k. | F |

Task 5: Multiple choice

- 1. C. No interest obligations
- 2. B. Initial public offering
- 3. B. Greater choice of finance
- 4. C. Lower level of gearing
- 5. D. There is insufficient retained profit
- 6. C. Retained profits
- 7. B. Control of the company becomes diluted
- 8. C. The value of liabilities increases
- 9. D. Receive payments from companies before any shareholders
- 10. A. Long term loan with a fixed interest rate
- 11. A. Impact on the company's working capital

- 12. A. Brand recognition
- 13. A. Differs from leasing in that ownership occurs with the last instalment
- 14. B. Sale and leaseback
- 15. D. The value of fixed assets remains unchanged as the firm keeps use of the asset
- 16. C. Non-recourse factoring
- 17. C. 15%
- 18. A. Debentures
- 19. C. Working capital
- 20. B. It is cheaper in the long run to buy capital equipment

Unit 3.2

Costs and revenues

Task 1: Vocabulary quiz

| Key term |
|---------------------|
| Cost |
| Direct costs |
| Fixed costs |
| Indirect costs |
| Price |
| Revenue |
| Revenue stream |
| Semi-variable costs |
| Total costs |
| Total revenue |
| Unit costs |
| Variable costs |

Task 2: Calculations

- a. i. $(15 \times 250) + 500 = \4250
- ii. $(\$35 \times 250) - \$4,250 = \$4,500$
- i. iii. $(150 \times \$15) + \$500 = \$2,750 / 150 = \18.33
 $(250 \times \$15) + \$500 = \$4,250 / 250 = \17.00
 Sales are higher at 200 units so the fixed costs are spread over more units (hence AC fall from \$18.33 to just \$17).
 This means that the firm has experienced economies of scale, i.e. falling AC as output increases.
- b. i. $[(\$2 \times 3,000) + \$3,000] / 3,000 = \$3$
- ii. Break-even = $\$3,000 / (\$6 - \$2) = 750$ units
 Margin of safety = $3,000 - 750 = 2,250$ units
- c. i. $TVC = \$5 \times 2,000 = \$10,000$
 $TFC = \$5,500$ (Overheads + Rent + Salaries)
 Hence, $TC = \$15,500$
- ii. $TR = \$15 \times 2,000 = \$30,000$
 Hence, profit = $\$30,000 - \$15,500 = \$14,500$
- d. i. $TVC = \$3,000$ per 100 (extra) units
 Hence, at 100 units of output, $TFC = \$5,000 - \$3,000$
 So $TFC = \$2,000$
- ii. It falls from \$50 per unit ($\$5,000 \div 100$) to just \$36.67 ($\$11,000 \div 300$), i.e. the firm experiences economies of scale
- iii. Unit cost = \$40 ($\$8,000 \div 200$) so the price must be 150% higher, i.e. \$100

Task 3: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | F |
| c. | T |
| d. | T |
| e. | F |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 4: Explain ...

- Fixed costs (such as rent and advertising) do not change with the level of output. By contrast, variable costs (such as wages and commission) continually rise with increasing levels of output.
- The fixed costs are spread over an increasingly larger level of output and hence the average fixed costs must fall.
- Answer could include an explanation of the various revenue streams such as: advertising revenue, transactions fees charged to customers, royalties, sponsorship revenues, subscription charges imposed on customers, dividends from share holdings, donations/gifts, interest earnings from cash savings in a bank, or government grants and subsidies.

Task 5: What type of cost?

| Type of cost | Fixed | Variable | Semi-variable |
|--|-------|----------|---------------|
| Advertising/promotional materials | ✓ | | |
| Equipment and tools | ✓ | | |
| Food supplies | | ✓ | |
| Fuel for meal deliveries | | ✓ | |
| Furniture (e.g. tables and chairs) | ✓ | | |
| Market research | ✓ | | |
| Telephone bills | | | ✓ |
| Packaging materials | | ✓ | |
| Rent on premises and buildings | ✓ | | |
| Staff salaries | ✓ | | |
| Staff wages | | ✓ | |
| Utility bills (e.g. gas and electricity) | | | ✓ |
| Vehicles (e.g. delivery cars) | ✓ | | |

Task 6: Cost and revenue formulae

| Type of Cost / Revenue |
|----------------------------|
| Average cost |
| Average fixed costs (AFC) |
| Average revenue (or Price) |
| Total cost |
| Total revenue |

Task 7: Multiple choice

1. B. Fixed costs
2. C. Raw material costs
3. D. Staff wages
4. A. Communications equipment
5. C. Interest on bank loans
6. D. Variable costs
7. A. Buildings insurance costs
8. A. Average fixed costs
9. B. Costs that are fixed in the short run
10. C. Quantity
11. D. \$12,000
12. B. \$1.50 $TVC = \$900$, so $AVC = 900 \div 600 = \$1.5$
13. D. \$2,345
14. A. \$5 $\text{At 200 units, } AC = 5,000/200 = \25 ; $\text{At 300 units, } AC = 6,000/300 = \20 , so AC falls by \$5
15. B. Average fixed costs

Unit 3.3

Break-even analysis

Task 1: Complete the missing words

Break-even occurs when a firm's **sales** revenue equals its **total** costs. The firm will make a **loss** if it operates below its break-even level of output. By contrast, if it is able to generate more **revenue** than costs incurred in production, then it will make a **profit**. Profit is the positive difference between sales revenues and the **costs** of production, i.e. total revenues **minus** total costs.

To calculate break-even, it is common to use the **contribution** method by dividing the **fixed** costs by the difference between the product's selling price and its **variable** costs of production. For example, if a manufacturer has fixed costs of \$5000 per month, with an average variable cost of \$15 and a selling price of \$235, then its break-even level of output would be **250** units per month. Contribution analysis can help a business to identify products or projects that are relatively profitable and ones that might need more attention.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | F |
| e. | T |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | F |

Task 3: Calculating break-even

- $\$60,000 / 1,000 = \60 per unit
- $TC = \$40,000$ (i.e. $\$60,000 - \$20,000$)
 $TVC = \$30,000$ (i.e. $\$40,000 - \$10,000$)
Hence, $AVC = \$30,000 \div 1,000 = \30 per unit
- $\$10,000 \div (\$60 - \$30) = 334$ units
- $500 - 334 = 166$ units (or close to 50% above break-even)
- $\$40 - \$15 = \$25$
- $100,000 \div \$25 = 4,000$ units
- i. Costs & revenues (\$); ii. Sales revenue; iii. Total costs;
iv. Fixed costs; v. Output level (units); vi. Break-even point;
vii. Break-even level of output (or Break-even quantity)

- h. Break-even analysis tends to be used for a single operation. If there is more than one product involved, fixed costs might not be easily divided between the various products, thereby making it difficult to determine an accurate break even level.
- i. Increase the break-even point, e.g. due to higher fixed costs. Decline in sales, e.g. due to an economic recession.

Task 4: Multiple choice

1. B. Factory rental costs
2. B. After-sales care
3. B. Selling, Average
4. B. Price minus average variable costs
5. A. Total revenue and total variable costs
6. D. It accounts for both fixed and variable costs
7. B. Reducing its prices
8. B. Unit contribution
9. D. \$3.6 million
10. D. Average fixed costs
11. B. Above, Profit
12. A. Break-even output will fall
13. C. The firm operates at a level higher than its break-even
14. C. \$35,000
15. A. \$275
16. C. 50
17. D. \$850
18. C. 30 $22,500 / (1,000 - 250) = 30 \text{ units}$
19. D. \$30,000 $\$1,000 \times 30 = \$30,000$
20. C. \$700
21. B. \$1,250 $\$250 + \$1,000 = \$1,250$
22. B. Economies of scale can only occur as the firm expands output
23. D. It is a static model that does not cater well for the dynamic nature of business
24. B. Multi-product firms cannot make use of break-even analysis
25. C. Qualitative decision-making

Unit 3.4

Final accounts

Task 1: Complete the missing words

All businesses need to be accountable to their owners. One way to do this is to produce final accounts on an **annual** basis. The **balance sheet** shows a snapshot of a firm's assets and liabilities at a particular point in time (usually at the end of the trading year). **Assets** are the property of a business, i.e. the resources that it owns. **Liabilities** are the monies owed by the firm to other people or organizations.

The **profit and loss** account is a record of the firm's trading activities over a period of time (usually **12** months). It is split into three parts. The **trading** account shows the value of a firm's gross profits, i.e. the difference between sales revenues and the cost of **sales** (or the **cost** of goods sold). **Expenses** are the overheads of a business that account for the difference between a firm's **gross** profit and its net profit. The remaining part of the account shows the amount of **dividends** distributed to shareholders and the **tax** payable to the government.

When reporting fixed assets, some businesses include **intangible** assets. These are non-physical assets that have a monetary value, such as **goodwill**, **trademarks**, brand value and investments in other companies.

When compiling the final accounts, businesses must abide by the **principles** and ethics of accounting practice, as established by a regulatory body. Examples include: **integrity** (honesty), **objectivity** (free from bias), ethics, confidentiality, and professional conduct.

Higher Level Only:

Depreciation refers to the decline in the value of **fixed** assets over time. It is most commonly calculated by spreading the **historic** cost of a fixed asset over its expected useful **lifespan**, taking into account the scrap (or **residual**) value of the asset. This method of calculating depreciation is known as the **straight** line method. For example, if a printing machine costs \$10,000, has an expected residual value of \$1,000, and is depreciated over its expected 5-year lifespan, the annual depreciation amounts to **\$1,800**. Some fixed assets, such as land and buildings, can increase in value over time (known as **appreciation**), although they still incur costs, such as maintenance and repair.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | T |
| e. | F |
| f. | T |
| g. | T |
| h. | T |
| i. | F |
| j. | T |
| k. | T |
| l. | T |
| m. | F |

Task 3: Explain one ...

- a. Retained profit, as a source of internal finance, can be used for reinvestment and/or to further expand the operations of the business, possibly leading to greater dividend payouts in subsequent years.
- b. Gross profit does not take account of expenses (overheads), as it only accounts for direct costs (cost of sales). Net profit can also be further broken down into net profit before and after interest charges and tax (which are beyond the control of businesses). This enables historical benchmarking to take place.
- c. Firms may be of different sizes, have different objectives or operate in completely separate industries, i.e. comparisons need to be 'like for like' to be of any use/purpose.
- d. Companies and their owners (shareholders) are separate legal entities, so publishing final accounts helps to ensure accountability to shareholders (the owners of the companies) as there is a divorce of ownership and control (directors run the companies on behalf of the shareholders).
- e. The capital employed (sources of finance) must equal the net assets employed (the use of funds). It ensures accountability as the owners of the business (such as shareholders) may not necessarily be the ones who run the organization.
- f. Fixed assets are illiquid and come about through capital expenditure (e.g. machinery and buildings); current assets are liquid assets and come about through revenue expenditure.
- g. *[HL Only]* The fixed asset (e.g. computers or motor vehicles) may become obsolete, i.e. dated; Fixed assets tend to also lose value due to usage, i.e. wear and tear.
- h. *[HL Only]* Depreciation reduces the value of fixed assets (shown on the balance sheet) and can be represented as an expense in the P&L account; Expenses also increase due to the costs replacement/maintenance of the fixed assets.
- i. *[HL Only]* Motor vehicles tend to lose a larger proportion of their value in the earlier years and therefore it is more realistic to devalue the asset by a predetermined percentage rate of depreciation rather than to depreciate it by a fixed monetary value.

Task 4: Formulae

| Key term |
|--------------------------------|
| Costs of goods sold (COGS) |
| Depreciation (per year) |
| Dividends |
| Gross profit |
| Net assets |
| Net profit |
| Overheads (or expenses) |
| Owners' equity (or net assets) |
| Profit (or Net profit) |
| Retained profit |

Task 5: Calculations

- a. \$110,000 because $\text{COGS} = \text{Opening stock} + \text{Purchases} - \text{Closing stock}$
- b. \$888,000 because $\text{Gross profit} = \text{Net profit} + \text{Expenses}$
or $\text{Net Profit} = \text{Gross profit} - \text{Expenses}$, i.e. $\$543,000 = x - \$345,000 = \$888,000$
- c.
 - i. \$30,000; \$68,000; and \$38,000
 - ii. \$68,000
 - iii. \$38,000
- d. $(250 - 100 - 55 - 15) = \$80,000$

e.

| Profit and loss account | | Balance sheet | |
|-------------------------|---------|---------------|---------|
| | \$ | | \$ |
| | 800,000 | | 350,000 |
| | 450,000 | | 250,000 |
| | 350,000 | | 180,000 |
| | 85,000 | | 420,000 |
| | 265,000 | | 150,000 |
| | 53,000 | | 270,000 |
| | 212,000 | | 420,000 |

- f. [HL Only] $(\$35,000 - \$7,000) \div 4 \text{ years} = \$7,000 \text{ per year}$
- g. [HL Only] $\$15,000 \times 0.6^2 = \$5,400$

Task 6: Multiple choice – Profit and loss

1. A. Cash flow forecast
2. B. The cost of goods sold
3. C. Has made an overall loss
4. C. Profit and loss account
5. B. Lists all revenue and expenditure of a business over a trading period
6. C. Machinery and equipment
7. C. The portion of net profits after interest and tax that is distributed to shareholders
8. C. Interest charges
9. D. Expressed as a percentage to allow for historical and inter-firm comparisons
10. D. Indirect costs of trading activities
11. A. Cost of sales
12. B. \$15,000

13. D. \$75,000
14. D. \$50,000
15. C. \$15,000
16. B. \$110,000
17. A. Direct costs
18. A. \$19,000
19. C. Interest paid to financial lenders
20. D. Using cheaper suppliers

Task 7: Multiple choice – Balance sheet

1. A. Cash flow forecast
2. D. Show the value of a business at a particular point in time
3. A. Assess business profitability and performance
4. A. Balance sheet
5. C. Net profits before interest and tax
6. C. Owner's equity
7. C. Liabilities
8. A. Debtors
9. A. Finished goods for sale
10. A. Creditors
11. A. Debentures
12. B. Debtors
13. C. Assets that generate cash sales for a firm
14. C. An increase in the value of fixed assets with a corresponding fall in the value of cash
15. D. They represent the use of funds of a business
16. D. Provides legal protection for an inventor to prevent others from copying it
17. A. Cash deposits at the bank
18. B. It includes the value of labour such as their market value if they were headhunted
19. B. Non-physical fixed assets of a business
20. C. Services
21. D. Fixed assets + Working capital – Long-term liabilities
22. B. Net assets = Share capital + retained profit
23. A. Fixed assets

- 24. A. Bureaucracy
- 25. A. (\$5,000)
- 26. A. \$3,000
- 27. C. Land (*HL Only*)
- 28. B. Appreciation (*HL Only*)
- 29. C. \$147,000 (*HL Only*)
- 30. A. \$60,000 (*HL Only*)

Unit 3.5

Profitability and ratio analysis

Task 1: Complete the missing words

Ratio analysis is useful for anyone who has a direct **interest** in the financial performance of a business. These people or organizations are known as the **stakeholders** of the business, such as:

- **Owners / shareholders** – These people or organizations are interested in the return on their **investment** so will be interested in financial ratios related to the firm's profitability.
- **Employees** – The personnel are interested in the profitability of the organization because this will influence their **pay** and job security.
- **Managers** – The leadership team are interested in the firm's financial ratios in order to gauge performance and to aid **decision**-making.
- **Creditors / suppliers** – These stakeholders are interested in the **liquidity** position of the business because this affects the firm's ability to pay for their goods and services.
- **Financial lenders** – Banks, for instance, are interested in the long term liquidity position of a business in order to judge its ability to repay **loans**.
- **Competitors** – Rival firms are interested in gauging the performance of the business. This is often used as part of their benchmarking practice.
- **Government** – The state (authorities) look at the financial performance of a business to ensure that proper accounting procedures are followed (to prevent fraudulent reporting of finances) and to calculate the correct amount of **tax** owed by the firm.

Task 2: Explain ...

- ROCE is, more specifically, the net profit (before interest and tax) expressed as a percentage of the firm's capital employed.
- Profit is made when revenues exceed costs of production, rather than any capital expenditure (which is used to finance the purchase of fixed assets).
- ROCE does not show profit in relation to capital expenditure; Profit is only made when all costs are paid, not only set-up costs but also running costs.
- There is no need to calculate a ratio to see the profits earned by a firm – this can simply be seen in the firm's profit and loss account!

Task 3: Vocabulary quiz

| Key term |
|-----------------------------------|
| Return on capital employed (ROCE) |
| Quick ratio |
| Profitability ratios |
| Net profit margin (NPM) |
| Liquidity ratios |
| Gross profit margin (GPM) |
| Current ratio |
| Capital employed |
| Acid test ratio |

Task 4: Complete the table

Use the information given in the table below to identify the ratio and the type of ratio (profitability, liquidity or efficiency).

| Ratio | Type of Ratio |
|----------------------------|---------------------------|
| Acid test | Liquidity |
| Gross profit margin | Profitability |
| Return on capital employed | Profitability/ Efficiency |
| Net profit margin | Profitability |
| Current ratio | Liquidity |

Task 5: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| e. | F |
| f. | T |
| g. | T |
| h. | F |
| i. | T |
| j. | T |
| k. | T |

Task 6: Multiple choice

1. B. Labour turnover rate
2. D. Profitability position
3. A. Current test
4. B. Ability to pay its short term debts
5. D. Profitability position
6. A. 40%
7. D. Return on capital employed
8. A. 45%
9. A. Firm A as its ROCE is 45% compared to Firm B's ROCE ratio of less than 42%
10. C. 2.5:1
11. D. Shareholders' funds plus long-term liabilities
12. D. The current ratio
13. D. Quick ratio
14. B. Has the firm's market share improved?
15. C. To calculate the value of net profit over time

Unit 3.6

Efficiency ratio analysis [HL Only]

HIGHER LEVEL

Task 1: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | F |
| g. | T |
| h. | F |
| i. | T |
| j. | T |
| k. | T |
| l. | T |

Task 2: Explain ...

- A higher creditor days ratio means that the business has preferential credit terms, i.e. it has a longer period in order to pay its suppliers or creditors. Hence, a high ratio should improve the cash flow position (liquidity) of the business.
- Generally, the greater the stock turnover rate the better it is for the business as they are more efficient in replacing their stocks (due to higher sales).
- Generally, lower gearing is preferred as this reduces the risks of loan capital financing, especially during times when interest rates are on an upwards trend. However, the optimal level of gearing for a firm will depend on its level of affordability; most firms will need to rely on external finance for growth and expansion.
- A low debtor days ratio means that customers pay earlier, thereby speeding up the firm's working capital cycle. However, too low a debtor days ratio means that some customers might look elsewhere for a better deal from other suppliers.
- Gearing requires the use of loans and other external sources of finance to fund business expansion, thereby possibly leading to long term profits; high gearing can be affordable to profitable firms, especially in a climate of low interest rates and high market growth.
- JJ's gearing ratio = $(\$0.1\text{m} + \$0.35\text{m}) \div \$1\text{m} = 45\%$, whilst LL's gearing ratio is $(\$0.15\text{m} + \$0.28\text{m}) \div \$1.1\text{m} = 39.1\%$. Therefore, JJ Clothing Ltd faces higher debt financing costs and is more vulnerable to changes in interest rates.
- During a recession, when real disposable incomes fall, trading becomes difficult. Thus, cash inflows tend to fall. However, highly geared firms still have to pay back their loans (a cash outflow), and hence the net effect is less favourable (there is less of an impact if the loan is on a variable rate contract, but cash inflows will still be lower during an economic downturn).

Task 3: Multiple choice

1. C. Gearing
2. B. The proportion of the a firm's capital employed formed by interest-bearing debt
3. C. Loan capital plus other borrowings expressed as a proportion of the capital employed
4. A. Creditors prefer firms to have high gearing as it means they make more profit
5. B. Debentures
6. B. $(\text{Long-term liabilities} \div \text{Equity finance plus long-term liabilities}) \times 100$
7. A. Debtor days
8. B. How long it takes, on average, for a firm to collect its debts from customers
9. C. How long it takes, on average, for a firm to pay its debts to suppliers and creditors
10. B. 73 days
11. C. McDonald's (fast food restaurants)
12. C. Short, Large
13. D. The number of times a business sells its stocks in a given time period
14. C. 61 days
15. C. They look at the level of gearing within firms

Unit 3.7

Cash flow

Task 1: Vocabulary quiz

| Key term |
|---------------------|
| Cash |
| Cash flow forecast |
| Current assets |
| Current liabilities |
| Debtors |
| Liquidity problem |
| Net cash flow |
| Overdrafts |
| Profit |
| Working capital |

Task 2: Outline ...

- Lacks marketing exposure to generate sales; Expenses, set-up costs and running costs will start to accrue before customers dine at the restaurant.
- There is a range of factors, e.g. reducing prices (for products with fierce competition), raising prices (for products that have few substitutes or a high degree of brand loyalty), reducing the value of debtors, reducing credit periods, using a debt factoring services or changing to other suppliers from more competitive prices.
- Sales revenue is the value of goods or services sold by a business (i.e. $\text{Sales revenue} = \text{Price} \times \text{Output}$), whereas profit is the value of revenue that remains after all costs of production have been deducted (i.e. $\text{Profit} = \text{Sales revenue} - \text{Total costs}$).
- They are the people or organizations that owe money to the business, i.e. the money legally belongs to the firm.
- Explanation of any two of the following: Overtrading; Poor credit control; Long credit periods given to clients; Poor cost control; Poor sales (perhaps due to ineffective marketing, substandard products or an economic recession); Overstocking; High gearing.
- Obtain credit from suppliers (e.g. ingredients for restaurants or toiletries for the hotel rooms); demand customers pay a larger deposit for their rooms prior to check-in; price discrimination (e.g. lower prices during off-peak periods due to lower levels of demand); seek external sources of finance (e.g. bank overdraft).

Task 3: Explain the difference between ...

- A CFF is a *prediction* of the cash flows in and out of a business over the next several months. The CFS shows the *actual* cash inflows and outflows for a specified period of time.
- Debtors are a *current asset* (as customers/businesses owe money to the organization) whereas creditors are a *current liability* (as this needs to be repaid to creditors/suppliers within the next twelve months).
- Current assets are items that a business owns for less than 12 months (e.g. cash, debtors and stock) whereas fixed assets are not intended for resale but used over and over for longer than 12 months in order for the business to function (e.g. machinery, buildings and vehicles).

- d. Profit is the difference between sales revenue and total costs. However, cash is not necessarily received immediately when a transaction takes place due to sales revenue being earned on credit. In addition, cash accumulation does not include the costs of production that have to be paid before a profit can be declared.

Task 4: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | F |
| g. | T |
| h. | F |
| i. | T |
| j. | T |
| k. | T |
| l. | T |

Task 5: Crossword

| | | | | | | | | | | | | |
|------------------------|---|-----------------|---|----------------------------------|---|-----------------|---|-----------------------------|------------------|---------------------|-------------------------|---------------------|
| ¹ C A S H | | | | ² B A L A | | | | ³ N C E | | | ⁴ F | |
| A | | | | | | | | I | | | | E |
| ⁵ S A L E S | | | | ⁶ C U M U L A T I V E | | | | | | | | |
| H | | | | | | | | | | | | ⁷ A |
| F | | | | ⁸ D E B T | O | R | S | | ⁹ S T | ¹⁰ O C K | | S |
| L | | ¹¹ L | | | | | | S | | | V | S |
| ¹² O | V | E | R | T | R | A | D | I | N | G | ¹³ W A G E S | E |
| W | | A | | | | | | N | | | R | T |
| | S | | | ¹⁴ L | | | | ¹⁵ G E A R E D | | | D | S |
| | E | | | E | | ¹⁶ P | | | | | R | |
| ¹⁷ B | A | N | K | R | U | P | T | C | Y | | ¹⁸ L O A N | ¹⁹ S |
| A | | | | | | | | O | | | F | A |
| C | | | | | | | | | | | T | L |
| K | | | | | | | | ²⁰ F O R E C A S | ²¹ T | | | |
| | | | | | | | | I | | | | ²² N E T |
| | | | | | | | | | | | | S |
| | | | | ²³ O U T F L O W | | | | | | | | |

Task 6: Multiple choice

1. B. Cash used to buy current assets
2. C. Overdrafts
3. B. Customers who have bought products but did not pay for them in cash
4. A. Copyright and patents
5. B. Long-term liabilities
6. D. Work-in-progress
7. D. Trade creditors
8. B. Fixtures and fittings
9. B. Finished goods
10. C. The money that is available for the daily operations of a business
11. B. Current assets less Current liabilities
12. C. \$55,000
13. A. \$45,000
14. C. To improve liquidity during unforeseen events
15. A. A fall in the value of trade debtors
16. B. Cash flow statement
17. A. Certain fixed assets
18. C. Provide a planning and decision-making tool for managing a firm's cash flows
19. D. Tight credit control
20. C. Longer credit periods

Unit 3.8

Investment appraisal

Task 1: Complete the missing words

Investment is the **expenditure** used to increase the productive capacity and operations of a business. It includes the purchase of **fixed** assets, such as buildings, equipment, machinery and motor vehicles.

The **payback period** (PBP) method of investment appraisal measures the length of time it takes for an investment project to generate enough **profit** to recoup the investment cost. It is quick to calculate but does not tend to favour **long-term** projects, i.e. those with a long payback period.

The **average** rate of return (ARR) measures the annual profit generated from an investment project, expressed as a **percentage** of the investment cost. The **higher** the ARR, the better the return from the investment.

[HL Only]

Net present value (NPV) considers the opportunity cost of money because money received in the future is worth **less** than it is worth if it were received today. **Discounted cash flows** (DCF) are used to express the **future** value of money. In general, an investment project is financially feasible if its NPV is **positive**.

Task 2: Outline the relationship between ...

- The larger the contribution per month, the faster the payback period.
- The higher the interest rate, the less attractive the ARR tends to be (it is safer to simply leave cash in the bank rather than taking huge financial risks if interest rates for savings are high).
- The higher the level of gearing the riskier it is for a firm if interest rates were to be raised. This will reduce the ARR and NPV of an investment.
- [HL Only]. The longer the time period under consideration, the higher lower the discount factor that is applied to future cash flows, i.e. the longer it takes for cash flows to materialise, the lower its future value (worth) will be.
- [HL Only]. The higher the discount rate, the lower the NPV due to the higher opportunity cost of receiving money in the distant future; interest rates (from savings) and inflation (higher prices) will devalue the future cash flows from an investment project.

Task 3: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | F |
| k. | F |

Task 4: Vocabulary quiz

| Key term |
|---|
| Average rate of return (ARR) |
| Discounted cash flow (DCF) <i>(HL Only)</i> |
| Investment |
| Net present value (NPV) <i>(HL Only)</i> |
| Payback period |
| Principal |
| Qualitative investment appraisal |

Task 5: Multiple choice

1. C. Purchasing new machinery
2. A. Leadership and management styles
3. D. Payback period
4. D. Payback period
5. A. Calculates the average annual profit of a project as a percentage of the principal
6. C. The firm's cash flow position
7. B. Firms that focus on profitability rather than short term cash flows
8. A. It favours projects that have high profitability over time
9. C. Manufacturing processes where technology changes frequently
10. C. Projects are expected to return a profit in the medium to long term
11. A. Alternative investment projects and their potential yields (returns)
12. D. It ignores the timing and pattern of cash flow
13. A. Expected changes in interest rates, thereby affecting the real value of money
14. B. Future, Lower *[HL Only]*
15. D. Payback period
16. B. \$95.24
17. A. Discount factor *[HL Only]*
18. D. Variance analysis
19. B. It accounts for medium to long term projects *[HL Only]*
20. C. The NPV is expressed in percentage terms to allow for easier benchmarking *[HL Only]*

Unit 3.9

Budgets [HL Only]

Task 1: Complete the missing words

Budgeting refers to the art of financial control in an organization. A **budget** is a financial plan that an organization strives to achieve as it allows the firm to check its progress against the budgeted (planned) targets. A budget should reflect the **goals** of an organization, e.g. if the firm plans to replace expensive capital equipment, then the amount should be incorporated into the budget. Budgets can be used for any quantitative variable, e.g. **sales** revenue, costs, profit, staffing, advertising expenditure and capital **expenditure** on fixed assets.

In reality, it is likely that there will be deviations from the budget plan. **Variance** analysis is a management tool used to calculate differences in the actual and **budgeted** figures. A **favourable** variance occurs when the **actual** outcome is better than the budgeted (planned) outcome. By contrast, an **adverse** variance occurs when the actual outcome is **worse** than the budgeted plan. The analysis also looks at the reasons for the differences that occur and can therefore be a useful analytical tool in assessing the success of a strategy.

Managing the finances of a business becomes more difficult as a business grows in size. Costs and **revenues** from different areas of the business become harder to account for. Hence, cost centres and/or profit centres are established, with a manager being held responsible for the costs and/or revenues incurred for each department (or centre). All **profit** centres are also **cost** centres, but **cost** centres are not necessarily **profit** centres.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | T |

Task 3: Vocabulary quiz

| Key term |
|---------------|
| Budget |
| Cost centre |
| Profit centre |
| Variance |

Task 4: Calculations and analysis

- a. Complete the missing information for Vivien Jack Hair Salon.

| Variable | Budgeted (\$) | Actual Outcome (\$) | Variance (\$) | Variance (F/A) |
|--------------|---------------|---------------------|---------------|----------------|
| Wages | | | 200 | |
| Salaries | | | 0 | |
| Stock | | | 50 | Adverse |
| Revenue | | 16040 | | |
| Direct costs | 3200 | | | |

- b. Shampoo, Conditioner, Hair dyes, Gel...
- c. Wages, stocks (e.g. shampoo, conditioner and gel), electricity, water...

Task 5: Explain ...

- a. Budgets are financial plans of what a business expects to spend and earn (e.g. sales or staffing costs) whereas forecasts are predictions of what might happen (e.g. trends in sales).
- b. Mathematically, a positive variance could be unfavourable for a business, e.g. actual payment of wages exceeds the budgeted amount (a positive number, but not 'positive' for the business). Hence, favourable variances are used (instead of 'positive' variances).
- c. Prevents abuse by budget holders since every dollar of spending needs to be justified; Gives management better overview and control of the firm's finances; Ensures funds are allocated to current spending needs rather than being based on historical provision or needs.
- d. Adverse budgets occur when the difference between actual outcomes and budgeted outcomes reduce the profits for a business. Budget deficits occur when the government spends more than it had budgeted for.
- e. Cost centres are accountable for their contribution towards the firm's overheads whereas profit centres are also held accountable for their contribution of revenues.

Task 6: Multiple choice

- B. The financial plan for the next twelve months
- C. They are historical (backward-looking) financial plans
- D. Zero budgeting
- D. 12 months
- D. Variance
- B. To assess performance related pay of managers
- B. Flexible budgets
- D. Unfavourable variance
- D. The budget holder's length of experience
- A. Favourable variances

Unit 4.1

The role of marketing

Task 1: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | F |
| d. | T |
| e. | F |
| f. | T |
| g. | F |
| h. | T |
| i. | T |
| j. | T |

Task 2: Vocabulary quiz

| Key term |
|--------------------------|
| Commercial marketing |
| Ethical code of practice |
| Market orientation |
| Market growth |
| Market share |
| Marketing |
| Marketing plan |
| Product orientation |
| Social marketing |

Task 3: Explain ...

- a. Marketing is about the identification, anticipation and satisfaction of the needs of customers, whilst making a profit (or financial surplus). This can be done through application of the marketing mix (product, price, promotion, place, people, physical evidence, process and packaging).
- b.
 - o As market share refers to an organization's share of the total value of sales of all products within a specific market, it can be measured by expressing the firm's sales as a percentage of the total market's sales.
 - o Alternatively, market concentration measures the degree of competition within a market by calculating the market share of the largest firms in a market. The sum of these market shares is known as the concentration ratio.

- c.
 - o Gain market share in the rapidly growing markets or gain higher sales/profits by entering the new market.
 - o Cost of entry into new markets (e.g. finance, R&D and personnel) or the high risks involved in launching new products, even if they are growing.
- d.
 - o Commercial marketing is concerned with selling a product to the customer with the purpose of making a profit, e.g. by portraying the glamour and appeal of smoking.
 - o By contrast, social marketing focuses on changing people's behaviour for what is deemed to be in the best interest of society, e.g. anti-smoking campaigns with the purpose of dissuading people from smoking.
- e.
 - o Firms without much competition or those that are highly innovative tend to be more product focused (product orientation), e.g. 3M, Apple and Google.
 - o A market orientated business has its focus on the needs and requirements of the customer, producing goods and supplying services that it knows it can sell.

Task 4: Calculating market share

- a. Complete the missing figures in the table below for a market valued at \$150 million.

| Company | Sales (\$m) | Market share (%) |
|---------|-------------|------------------|
| A | | 40 |
| B | | 20 |
| C | 33 | |
| D | 27 | |

- b. Companies A and C (the largest two firms) account for 62% of the market (a combined \$93m in a market worth \$150m), i.e. the two firms have significant market power (market leaders) so dominate the market.

Task 5: Multiple choice

1. C. Recruiting the best sales people
2. C. It is all about selling products to meet the needs of customers
3. A. Marketing budgets
4. B. People
5. A. Packaging
6. D. Production
7. B. Perishable
8. D. Researching consumers' needs in order to develop new products
9. D. There is a lot of spending on research and development
10. C. Products are designed according to what the producer feels will sell
11. B. Producing and marketing products that the firm believes will sell
12. C. Physical evidence

- 13. B. The percentage of total sales in a market that can be attributed to a firm
- 14. A. It can lead to market leadership
- 15. D. Social marketing
- 16. B. Increase the firm's market share by 5% within the next 18 months
- 17. A. People, physical evidence and process
- 18. C. Ethical marketing
- 19. C. Physical evidence
- 20. A. To gain higher market share

Unit 4.2

Marketing planning

Task 1: Vocabulary quiz

| Key term |
|------------------------------|
| Ethical marketing |
| Market segment |
| Marketing planning |
| Marketing strategy |
| Mass markets |
| Niche markets |
| Packaging |
| Positioning (perception map) |
| Target market |
| Unique Selling Point |

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | T |
| e. | T |
| f. | F |
| g. | F |
| h. | T |
| i. | T |
| j. | F |

Task 3: Explain the difference between ...

- The marketing of goods relies on the traditional marketing mix (the 4Ps) of product, price, promotion and place. The marketing of services relies on an additional 3 Ps - people, processes and physical evidence.
- Marketing objectives are the goals of the marketing department, which align with the organization's overall aims, such as striving to increase market share. Marketing strategies are the ways the business intends to achieve its marketing objectives, e.g. product development, repositioning or product extension strategies to increase its market share.
- Market segments are distinct groups of customers with similar characteristics, e.g. age, gender or religion. Market segmentation is the process of splitting a market into such distinct groups.

- d. Market segmentation is a prerequisite to targeting. By splitting a market into distinct groups of buyers (e.g. children and adult or males and females), appropriate marketing strategies can be used to target these market segments.
- e. Niche markets are small and focused; there are high profit margins as premium prices can be charged. In mass markets, producers sell standardised products to large consumer markets, so profit margins are lower.

Task 4: Multiple choice – Market segmentation, consumer profiles and market mapping

- 1. C. Product extension strategies
- 2. B. Process
- 3. C. Market segmentation
- 4. A. Packaging
- 5. B. Differentiation
- 6. B. Market
- 7. A. Demography
- 8. C. Lifestyle
- 9. B. It is used for primary research only
- 10. A. Demographic
- 11. D. The time involved in compiling customer profiles
- 12. A. Academics
- 13. C. Positioning
- 14. D. Repositioning
- 15. B. Consumers
- 16. C. Positioning
- 17. A. High quality at a high price
- 18. C. Low quality at a high price\
- 19. C. Psychographic
- 20. D. Unique selling point

Unit 4.3

Sales forecasting [HL Only]

HIGHER LEVEL

Task 1: Vocabulary quiz

| Key term |
|------------------------|
| 3-point moving average |
| Cyclical variations |
| Extrapolation |
| Mean (arithmetic) |
| Moving averages |
| Random variations |
| Sales forecasting |
| Seasonal variations |
| Time series analysis |

Task 2: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | T |
| e. | T |
| f. | F |
| g. | F |
| h. | T |
| i. | T |

Task 3: Multiple choice

- D. Statistical tool used to predict a firm's sales level
- A. Budgetary variations
- D. Increase market share
- C. Modal
- C. Launch
- A. Banking services
- C. The data make it difficult to extrapolate sales trends
- C. \$1,554
- D. Moving averages
- C. The magnitude of the variations in sales revenues

Unit 4.4

Market research

Task 1: Vocabulary quiz

| Key term |
|--------------------|
| Academic journals |
| Cluster sampling |
| Market research |
| Non-sampling error |
| Population |
| Primary research |
| Questionnaire |
| Sampling |
| Secondary research |

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | F |
| c. | F |
| d. | T |
| e. | T |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 3: Sampling

| Sampling method |
|-----------------|
| Cluster |
| Convenience |
| Quota |
| Random |
| Snowballing |
| Stratified |

Task 4: Explain the difference between ...

- a. Qualitative market research is based on the opinions and views of people/customers whereas quantitative methods focus on research that aids statistical analyses.
- b. Ad-hoc market research takes place on an 'as and when necessary' basis; Continuous market research takes place on an ongoing basis, perhaps weekly, monthly or quarterly.
- c. Quota sampling selects a certain number of people (the quota) from different market segments (that share the same characteristics such as age, gender or occupation). Random sampling involves giving everyone in the population an equal chance of being selected for the sample. They are randomly chosen, often by using information from a computer database.
- d. Academic journals (such as the Harvard Business Review) are publications that contain the latest educational research and academic theory. Market analyses are reports from the industry (such as *The Grocer* in the supermarket industry) containing data and information about a particular product, market or industry.

Task 5: Multiple choice

1. B. Market research
2. B. Focus
3. B. Desk, new
4. A. Collecting new data for a specific purpose
5. C. To gather data required that does not already exist
6. A. Customer suggestions and feedback
7. B. It is unique to the purpose of the research
8. C. Group interviews
9. B. Observations and surveillance
10. C. Primary research may lack specific focus
11. A. Academic publications
12. C. Social trends
13. A. Accessing company annual accounts
14. C. Includes the use of survey and interview findings conducted by the firm
15. A. Desk research
16. C. Observations
17. D. The latter method relies on a much larger number of respondents to get a statistically valid set of answers
18. C. Qualitative research
19. B. Qualitative research
20. D. Quantitative research
21. D. Understand the behaviour, attitudes and perceptions of selected sample
22. C. Is based on only using primary research techniques
23. C. Sample

- 24. **D.** It is cheaper and quicker to use a sample than to survey the whole market
- 25. **B.** Quota
- 26. **C.** Random
- 27. **A.** Cluster
- 28. **C.** Likely to be very representative of the population
- 29. **B.** Homogenous characteristics of the population
- 30. **D.** Surveys or interviews carried out with individuals, who then suggest other friends, family or acquaintances to increase the sample size
- 31. **C.** Errors made in recording data
- 32. **D.** There are sampling discrepancies
- 33. **C.** Snowballing
- 34. **D.** Stratified sampling
- 35. **B.** Random sampling

Unit 4.5

The 4 Ps - Product

Task 1: Vocabulary quiz

| Key term |
|-------------------------|
| Boston matrix |
| Brand awareness |
| Brand extension |
| Brand loyalty |
| Cash cows |
| Consumer durables |
| Extension strategies |
| Logo |
| Maturity |
| Product differentiation |
| Product life cycle |

Task 2: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | F |
| c. | T |
| d. | T |
| e. | F |
| f. | T |
| g. | T |
| h. | T |
| i. | T |

Task 3: The Boston Consultancy Group matrix

- a. True
- b. True
- c. True
- d. False
- e. True
- f. Stars
- g. iii. To determine customer perceptions of the product portfolio
- h. iv. Wild cards
- i. i. Cash cows

j.

| | | |
|---|---|----------|
| A | Z | Maturity |
| B | Y | Decline |
| C | X | Growth |
| D | W | Launch |

Task 4: Multiple choice – Product

1. A. Capital goods
2. C. Perishables
3. A. Products that are not durable
4. C. Fast moving consumer goods
5. B. Convenience goods
6. D. IB Science textbooks
7. A. Fresh food
8. B. Games consoles
9. B. Product differentiation
10. C. Perception mapping
11. C. Publicity
12. C. Launch
13. C. Market research and development
14. C. Redesigned packaging to increase the emotional value of the product
15. D. Increasing prices to improve the image (perception) of the product
16. A. Brand extension
17. C. Producing new products to sell abroad
18. C. The last stage of a product's life cycle, when sales revenues fall
19. B. A product
20. B. Product extension strategies
21. D. To raise brand awareness
22. B. It allows firms to charge lower prices to attract more sales
23. B. Brand leader
24. D. Brand loyalty
25. D. Premium brands

The 4 Ps - Price

Task 5: Vocabulary quiz

| Key term |
|----------------------------|
| Psychological pricing |
| Price skimming |
| Price leadership |
| Price discrimination |
| Predatory pricing |
| Penetration pricing |
| Mark up (or profit margin) |
| Loss leader |
| Cost-plus |

Task 6: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | T |
| e. | F |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 7: Multiple choice – Price

1. D. Profit margin
2. B. \$4 $(\$10,600 + \$12,000 + \$25,000) \div 11,900 = \4
3. A. \$3.95
4. C. 50%
5. D. Prices are set according to the average price level
6. B. Predatory pricing
7. C. Maximise short term profit margins
8. C. To introduce an original and unique product

9. C. Predatory pricing
10. B. Loss leader pricing
11. B. Price discrimination
12. C. Price discrimination
13. D. \$9.95
14. A. Airline operators
15. B. Predatory pricing

The 4 Ps - Promotion

Task 8: Complete the missing words

Promotion is about communicating marketing messages, such as adverts, with the intention of selling the **products** of a business. There are various **media** that can be used for this purpose, e.g. television, radio, newspapers, magazines and the **Internet** (for social media and social networking). Promotion is important to ensure that a product has a high chance of succeeding in the marketplace. However, the spending has to be **cost**-effective because promotion can be very expensive. The objectives of promotion are to **inform** and to **remind** customers about a firm's products, and to **persuade** them to purchase the products.

Promotion is often categorised as **above the line** (ATL) or **below the line** (BTL). ATL promotion refers to paid-for promotion, e.g. commission being paid to an advertising **agency** for creating a television advertising campaign. All other forms of promotion are known as BTL promotion. Unlike ATL promotion, the firm has direct control over BTL promotional activities such as: direct mail, exhibitions, **point of sales** (POS) displays and sales promotions.

The **promotional mix** refers to the different aspects of an individual promotional campaign. This can include **advertising**, direct marketing, personal selling and sales promotion techniques.

Task 9: Above- or below-the-line promotion?

| Promotional technique | ATL | BTL |
|----------------------------------|-----|-----|
| Billboard posters | ✓ | |
| Branding | | ✓ |
| Cinema | ✓ | |
| Direct mail | | ✓ |
| Free samples | | ✓ |
| Guerrilla marketing | | ✓ |
| Internet, e.g. Google and Yahoo! | ✓ | |
| Magazines | ✓ | |
| Merchandising | | ✓ |
| Newspapers | ✓ | |
| Packaging | | ✓ |

| | | |
|---|---|---|
| Personal selling | | ✓ |
| Point of sale displays | | ✓ |
| Public relations | | ✓ |
| Radio | ✓ | |
| Sales promotion | | ✓ |
| Social media, e.g. Twitter and Facebook | ✓ | |
| Sponsorship | | ✓ |
| Television | ✓ | |
| Trade journals | ✓ | |
| Viral marketing | | ✓ |
| Website (company-owned) | | ✓ |

Task 10: Short-answer questions

- Promotion is vital to a firm's marketing mix as its function is to communicate messages to existing and potential customers, with the intention of selling the firm's products. Irrespective of the quality of the product, its price or where it is available for sale, the product must be promoted effectively in order to make customers aware and to have a desire to buy it. Hence, promotion is essential for the commercial success of a product.
- Persuasive advertising aims to sell a product to the customer, perhaps by the use of branding or product differentiation, e.g. mobile phone operators that claim to offer the 'best' deals. Informative advertising, as used by governments and other non-profit organizations, aims to educate people so that they change their behaviour, e.g. anti-littering campaigns. Profit seeking firms also use this method to inform customers about their products, e.g. facts and figures.
- Such unethical action might negatively affect the corporate image of the sports club that, directly or indirectly, promotes healthy lifestyles. In addition, they are likely to have a young fan base, thus any association with harmful products such as tobacco would not be socially accepted.
- Television advertising is a highly expensive form of ATL promotion and is used by large businesses that target mass market customers (rather than sole traders who lack the finance to use TV advertising and do not tend to cater for a mass consumer market).
- BOGOF deals do not raise any extra revenue for the firm so there is no contribution towards costs from the sale of the 'free' product; neither do they directly help to raise market share. BOGOF deals are only used temporarily, often to get rid of excess stock, i.e. it is not a sustainable promotional strategy.
- Customers get benefits in the form of gifts and/or price reductions from their repeated purchases; For businesses, loyalty schemes can create customer devotion to their company and brand (including word of mouth promotion). Thus, they can give the business a competitive advantage.
- Global market leaders continue to advertise in order to retain and strengthen brand loyalty, maintain or improve market share, adjust and/or improve their brand image, to attract new customers, to enter new markets overseas, and to consolidate their market position.

Task 11: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | F |
| c. | T |
| d. | T |
| e. | F |
| f. | T |
| g. | T |
| h. | F |
| i. | F |
| j. | T |

Task 12: Multiple choice – Promotion

1. C. Price reductions
2. B. Cinema advertising
3. C. Below the line promotion
4. A. Above the line
5. C. The use of promotion via the mass media
6. C. The marketing process of selling straight to potential and known customers
7. D. The process of persuading people to buy a firm's products
8. A. A corporate slogan
9. C. A sign or symbol that represents a business and its products
10. B. Direct marketing
11. A. Customer relations management
12. C. Free gifts
13. B. Personal selling techniques
14. A. Hero endorsement
15. D. Sponsorship
16. A. Activities aimed at establishing and protecting a firm's corporate image
17. C. Sales promotion
18. B. Focuses on promoting the brand or business itself, rather than a particular product
19. C. Persuasive
20. C. Personal selling
21. C. Sales promotion
22. D. Reach audiences engaged in other activities, such as driving

23. B. Social media marketing
24. B. Social marketing
25. A. It is a form of above the line promotion

The 4 Ps - Place

Task 13: Complete the missing words

Place, also known as **distribution** refers to the component of the marketing mix that deals with getting the right products to the customer in the most **convenient** and most cost-effective way. Firms do this through different **channels**, of distribution, such as the use of wholesalers, retailers and sales agents.

Intermediaries are people or organizations that act on behalf of sellers and buyers. **Wholesalers**, for example, are the buyers of products from a manufacturer and sell on these products in smaller units to **retailers**. This is an example of a **two-level** channel between producer, wholesaler, retailer and consumers.

Telesales / telemarketing refers to the use of telephone calls to clients to sell products directly to potential customers. This distribution method has proved to be popular with insurance and banking firms. The advantage of using this approach is that it **reduces** the need for sales people to make personal visits, thereby saving travel time and money.

Task 14: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | T |
| e. | T |
| f. | T |
| g. | T |
| h. | F |
| i. | F |
| j. | F |

Task 15: Explain ...

a. Advantages

- Less effort - no need to physically go to the supermarket
- No need to carry bulky items (fruits and vegetables can be heavy)
- Convenience - the online supermarket is open 24-7; useful if customers are unable to leave the house, e.g. due to bad weather or because they have young children to attend to.

Disadvantages

- Time lag (delay) between ordering products and having them delivered
- Possibility of inconvenient delivery times

- The supermarket might not be able to guarantee quality or freshness of fruits and vegetables
 - Customers cannot hand pick or personally inspect the fruits and vegetables
 - A delivery charge may apply if the minimum order is not purchased.
- b. Explanation of cost-based pricing strategies, e.g. cost-plus / mark-up pricing.
- c. Perishables need a short chain of distribution in order to get products to consumers in the quickest time possible; otherwise the fresh/perishable products (e.g. fresh flowers or freshly baked cakes) would cease to be fit for their purpose.

Task 16: Vocabulary quiz –

| Key term |
|-----------------------------------|
| Agents |
| Channels of distribution |
| Chain stores |
| Distribution (or place) |
| Mail order |
| Intermediaries |
| Vending machines |
| Zero-channel distribution network |

Task 17: Multiple choice – Place

1. C. Marketers
2. C. The location of business
3. C. Specialist retail outlets
4. C. Retailer
5. C. Charging commission for their services
6. A. Cashiers at a supermarket
7. C. Retailers
8. A. Breaking bulk
9. A. Direct
10. D. Reduces the need for an intermediary
11. B. Retailers
12. D. They rely on the expertise of distributors and agents
13. B. Sales people are not required to sell the product
14. D. Wholesaler
15. C. Newspapers and magazines

Unit 4.6

The extended marketing mix [HL Only]

HIGHER LEVEL

Task 1: Explain ...

- Goods are physical products (such as cars and computers) whereas services are intangible products (such as a car wash service and computer maintenance services).
- The marketing of goods involves the traditional marketing mix (product, price, promotion and place). The marketing of services includes three additional elements to the marketing mix: people, process and physical evidence.
- People are required to assist in the selling of a service; they are essential in determining the customer experience, be it a haircut, bus ride or visit to a hotel. The employee-customer relationship also determines whether customers have a positive perception of the business.
- Businesses that do not manage the waiting time for their services will upset their customers. The consequences include: disgruntled customers, customer complaints, a poorer corporate image and negative word of mouth marketing. Customers might seek compensation and/may switch to alternative suppliers.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | F |
| c. | F |
| d. | T |
| e. | T |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | T |

Task 3: Multiple choice

- B. Purchasing popcorn and drinks at the cinema
- A. Durable
- A. Customer feedback
- D. The way in which a service is provided or delivered by a business
- B. Customer relations management
- C. Physical evidence
- A. Amazon.com
- A. Flexible working practices
- D. Social media and social networks have empowered customers globally
- A. Correcting mistakes is highly expensive

Unit 4.7

International marketing

Task 1: Explain ...

- a. Exporting involves selling a firm's products to overseas buyers, i.e. it doesn't require a business to physically expand in an overseas market. By contrast, direct investment involves setting up overseas production and/or distribution facilities.
- b. International marketing refers to marketing across national boundaries whereas global marketing occurs when a business markets a standardized product on a global scale.
- c. The products originate from the UK and are associated with British culture, but are known/consumed throughout the world.
- d. Such an approach can give the firm a competitive edge and a greater chance of survival in overseas markets; What works well in one country does not necessarily work well in other countries where cultures, expectations and business etiquette can be drastically different.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | T |
| i. | T |
| j. | F |

Task 3: Odd one out

| | | | | |
|----|----------------|----------------|----------------|-------------------|
| a. | Copyrights | Patents | Exchange rates | Health and Safety |
| b. | Tariffs | Quotas | Embargoes | Language |
| c. | Exporting | Joint ventures | Mergers | Takeovers |
| d. | Exchange rates | Legislation | Unemployment | Inflation |

- a. Exchange rates - the only economic barrier; the others are legal constraints on international marketing and can affect a single product only (rather than exchange rates that affect all products).
- b. Language - others are artificial (government-imposed) trade barriers.
- c. Exporting - others require some form of foreign direct investment to enter overseas markets.
- d. Legislation - others are economic issues (rather than political) related to international marketing.

Task 4: Multiple choice

1. D. The sheer quantity of suitable customers
2. C. Local laws
3. B. Attitude towards working hours
4. B. Cultural exports
5. A. Business etiquette
6. B. Global marketing
7. A. Business etiquette
8. C. Language and culture
9. A. Extending a product's life cycle
10. C. Mobile phones from Finland
11. A. External sources of finance
12. C. Quotas
13. D. Imported, reduce
14. C. Lower prices being charged
15. C. Globalization of markets and cultures

Unit 4.8

E-commerce

Task 1: Explain ...

- E-commerce allows a business to operate 24/7 and throughout the world, giving customers improved convenience and choice, thereby improving the productivity of the business. Having an online presence can also give a firm a competitive edge as it reaches a larger number of customers around the globe. Costs of production can also be lower for e-tailers, thereby giving them a competitive price advantage.
- Illegal downloading of music on the Internet has undoubtedly harmed sales; However, e-commerce firms such as iTunes have more marketing opportunities and provide greater convenience for customers, e.g. buying single songs rather than whole albums.
- Spam mail can be both irritating and counter-productive; Workers might use email for personal rather than professional reasons thereby affecting productivity; Checking/replying to emails can be very time consuming and thereby reduces productivity; It is reliant on advanced technologies that can be quite volatile and can be prone to hackers and/or breakdowns.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | T |
| e. | F |
| f. | T |
| g. | F |
| h. | T |
| i. | T |
| j. | T |

Task 3: Multiple choice

- D. Shoes
- A. Footloose
- C. Re-engineering
- C. Shortened, greater
- C. E-tailer
- B. Price transparency for customers
- A. Advertising spam

- 8. A. Advertising clutter
- 9. B. Higher costs of overseas sales and distribution networks
- 10. C. Price transparency
- 11. B. Cheaper transportation costs
- 12. B. Language
- 13. D. Selling advertising space
- 14. D. There are high marginal costs in sending emails
- 15. D. Viral marketing

Unit 5.1

The role of operations management

Task 1: Vocabulary quiz

| Key term |
|---------------------------------------|
| Value-added |
| Triple bottom line |
| Social sustainability |
| Quaternary sector |
| Operations management (or production) |
| Economic sustainability |
| Ecological sustainability |
| Capital-intensive |

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | T |
| h. | T |
| i. | T |
| j. | F |

Task 3: Multiple choice

1. A. All of the below
2. D. Technological sustainability
3. B. Labour intensive production
4. C. Innovations
5. A. Entrepreneurship
6. D. Sustainability
7. B. Cradle to grave manufacturing
8. B. Population growth
9. B. Efficiency
10. C. To hire the best (most suitable) production workers

Unit 5.2

Production methods

Task 1: Complete the missing words

There are several methods of production. **Job** production involves the customization of an individual product, from start to finish, to meet the specific requirements of a customer. Clients are likely to pay relatively **high** prices for the purchase of such **unique** products.

Batch production and mass production methods both benefit from **economies** of scale through larger levels of **output**. However, the marketing mix will differ, as there is less uniqueness or exclusiveness. **Mass** production, in particular, suffers from the **standardisation** of output and hence relatively lower prices are charged (so relatively lower **profit** margins are earned).

Cellular manufacturing is an adaptation of mass production whereby tasks are completed by teams (or cells) that are given the responsibility for completing a part of the overall **production** process. In reality, this method of production tends to be **capital** intensive.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | F |
| f. | F |
| g. | T |
| h. | T |
| i. | F |
| j. | T |

Task 3: Explanations

Turner & Taylor Clothing Co. design and manufacture trendy fashion clothing for teenagers in a variety of designs, colours and sizes.

- Batch production.**
- Can gain some economies of scale; Standardised output with some variety (of clothing items) for a mass market; Flexibility in producing clothes of different sized and colours (variety/choice); better stock control.**
- Customers will only pay for clothes that are completed, not those that are 'work in progress'; hence no cash is generated from having stocks of semi-finished goods. Stockpiling will also add to storage and insurance costs, worsening the firm's liquidity position.**

Task 4: Multiple choice

1. B. Economies of scale can be enjoyed due to the size of the project
2. B. Bakers
3. D. Relatively quick to produce
4. A. Distinctive quality and output
5. C. Labour intensity
6. C. Production is capital-intensive
7. A. Batch
8. B. Charnley's Hair Salon
9. A. Average costs
10. B. Exclusivity
11. C. Stockpiling of manufactured products
12. C. Use of a highly skilled labour force
13. C. Production processes broken down into units based around teams
14. A. Cellular production
15. B. Employees work independently to avoid distractions
16. B. Interest rates fall
17. D. School reports
18. D. Resources that are not used in a cost-effective way
19. A. Whether the financial returns from the investment justifies the expenditure
20. C. Steel manufacturing
21. C. Printers and publishers
22. B. Hiring more workers
23. A. Investing in production technologies
24. D. Using more labour-intensive production methods
25. D. Specialization

Unit 5.3

Lean production and quality management [HL Only]

HIGHER LEVEL

Task 1: Complete the missing words

Quality **assurance** (QA) requires the implementation of processes and systems to make certain that quality standards are met, thereby ensuring customer **satisfaction**. QA is used by a business to give customers greater **confidence** in the quality of the products that they buy from the organization. A firm that is able to meet QA standards will publicise this, usually with the use of international quality assurance trademarks, such as ISO **9000**.

At the heart of quality management are concepts such as **lean** production (the elimination of **waste**) and **just-in-time** (a production system that removes the need to use buffer stocks by having stocks and components delivered as and when they are needed in the **production** process). Quality management also involves all members of an organization striving to make small, continuous adjustments and improvements. This philosophy is known as **kaizen**, the Japanese term for 'change for the better' or '**continuous** improvements'.

One other way used by businesses to manage quality is by comparing their practices or performance indicators with those of the best in the industry. This method is known as **best practice benchmarking** (BPB), or simply 'benchmarking' for short. BPB is as a continuous process in organizations that make every effort to achieve **quality** assurance.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | T |
| e. | T |
| f. | T |
| g. | T |
| h. | F |
| i. | T |
| j. | F |
| k. | F |
| l. | F |

Task 3: Explanations

- a.
 - i. Customer dissatisfaction is a sign of poor quality (service)
 - ii. The laptop is clearly not fit for its purpose and therefore represents substandard quality
 - iii. This represents second-rate (poor quality) food preparation in a restaurant.
- b. **B. Staff turnover**
 Staff turnover is a measure of personnel effective in motivating and retaining staff. Although the rate of staff turnover could have an impact on quality, it is not a (direct) measure of quality.
- c. Staff training and retraining costs; Planning and executing QA take time and can be costly; Resistance to change from the workforce; Systems developed to achieve zero defects can be highly expensive.

- d. It signifies that the manufacturer has passed stringent and regular testing by independent agents; Such prestigious awards can give a manufacturer a competitive edge or a distinctive selling point; quality certification gives customers greater reassurance / confidence in parting with their money.

Task 4: Multiple choice

1. C. Quality means less stress to employees due to the reduced workload
2. B. Fit for purpose
3. D. Value for money
4. B. Higher wastage levels
5. B. Higher wastage levels
6. C. Mass production
7. B. International quality standards
8. D. Zero defects
9. D. Quality control
10. C. It requires continuous improvement in the production process

Unit 5.4

Location

Task 1: Complete the missing words

The location decision is vitally important for a business because it has a direct and long-lasting impact on its costs, revenues and therefore its **profits**. Good location decisions require in-depth research and analysis of the costs and **benefits** of different places, taking both quantitative and **qualitative** factors into consideration.

In an increasingly globalized business world, reorganizing production takes place both nationally and internationally. There are three main ways to do this:

- **Insourcing** is the use of an organization's own people and resources to accomplish a certain function or task which would otherwise have been **outsourced**.
- **Offshoring** involves relocating business functions and processes overseas. These functions can remain within the business (operating in overseas markets) or outsourced to an overseas organization.
- **Outsourcing** (or subcontracting) is the practice of transferring internal business activities to an external organization, in order to reduce **costs** and increase **productivity**.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | F |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | T |
| g. | F |
| h. | T |
| i. | T |
| j. | F |
| k. | T |

Task 3: Explain two reasons why ...

- Higher level of demand (for the land), pushing up rental values; Lower supply of quality locations, again pushing up the cost of land in the city.
- Government wishes to encourage employment and economic activity in these assisted areas; Provides a financial incentive for firms to locate in areas that they may not have otherwise considered being located in.
- Enabling customers to make online purchases means that businesses can be more footloose; Location is no longer such a significant factor for overseas customers who can place orders online.

Task 4: Multiple choice

1. D. The need to be physically located near customers
2. B. Internal economies of scale
3. D. Nixon Oil Company
4. D. Reduce transportation costs
5. D. Highly expensive products
6. B. Heavy, bulky and durable items
7. B. Cost of purchasing or renting land
8. C. Taxes imposed on harmful by-products to protect the local community
9. B. Nature of local infrastructure
10. B. Management preferences
11. B. Industrial inertia
12. A. Clustering
13. D. Subcontractors
14. B. Cannot gain any cost advantage from a particular location
15. C. Proximity to the market

Unit 5.5

Production planning [HL Only]

HIGHER LEVEL

Task 1: Complete the missing words

The **supply** chain (or logistics) refers to the sequence of activities from the production of a good or service to it being **delivered** to the consumer. A long supply chain increases the chances of things going wrong, so effective supply chain management helps to **minimise** costly mistakes to the business.

Production planning involves managers overseeing and controlling the level of stock in a business. Stocks can come in three forms: **raw materials**, **work-in-progress** and **finished** goods. The **economic order quantity** (EOQ) is the level of stock that minimises the firm's average costs. Firms need to balance the costs of holding excessive volumes of stock (known as **stockpiling**) with the drawbacks of holding insufficient quantities of stock (known as a **stock-out**).

Delays in the **lead** time (the period of time taken for a **supplier** to process and deliver a stock order) will mean that stocks fall below the desired minimum level so the firm has to rely on its **buffer** stock.

Just-in-case control systems rely on the use of buffer stocks in order to meet changing levels of demand. By contrast, **just-in-time** systems have stocks delivered immediately the moment that they are required for production. This helps to improve the firm's **working** capital as money is not tied up in stocks, which might not be highly liquid.

Task 2: Explanations

- a. JIC systems rely on the use of traditional stock control systems and buffer stocks; JIT is a core feature of lean production that eliminates the need to hold stock (instead it is delivered and used 'just in time' during the production process).
- b. Outsourcing can occur within a country or outside a country when a business sub-contracts work to an external agency; Offshoring occurs when the sub-contractor operates outside of the country.
- c. This depends on what operations are being outsourced, e.g. production could take place overseas (such as Apple using Foxconn to produce its iPhones and iPads in China) with growing consumer demand in the domestic economy.
- d. The organizational structure will become flatter as there are fewer employees (as subcontractors are used instead). The structure might even be replaced by a matrix organization or by project teams.
- e. Productive capacity is the maximum possible output of a firm, whereas capacity utilization measures the extent to which the firm operates at its maximum capacity.
- f.
 - o $\text{AFC at full capacity} = \$100,000 \div 50,000 = \$2$
 - o However, $\text{AFC at 85\% of full capacity is now } \$100,000 \div 42,500 = \$2.35$
 - o i.e. unit fixed costs are \$0.35 or 17.5% higher if operating at only 85% capacity.

Task 3: Interpreting JIC stock control diagrams

- a. i. Stock level (units); ii. Maximum stock level; iii. Re-order quantity; iv. Buffer stock or minimum stock level; v. Time (e.g. days or week).
- b. i. 20,000; ii. 20,000; iii. 30,000

Task 4: Multiple choice

1. B. Ordinary shares
2. D. Storage costs
3. A. Builds up excessive levels of inventory
4. D. Working capital is tied up in stockpiling
5. B. The quality of production might become more difficult to monitor
6. A. Labour turnover
7. D. There is flexibility to meet sudden changes in consumer demand
8. B. Just-in-time
9. D. Wastage and reworking
10. D. Usage rate
11. B. Economic order quantity
12. C. Sudden increase in consumer demand
13. A. 1 week
14. A. 1,500 kg
15. B. 3,000 kgs
16. A. Higher average fixed costs of production
17. B. 80%
18. B. Queuing times will increase
19. C. Subcontracting work
20. D. Low, High
21. D. Subcontracting
22. A. Consideration and observation of overseas regulations
23. D. Ratio analysis
24. B. Greater job security
25. B. Offshoring

Unit 5.6

Research and development [HL Only]

Task 1: Complete the missing words

Research is about investigating the unknown, such as new products or processes. **Development** is about using research findings to create new products that might be commercialised. The purpose of **Research** and **Development** (R&D) is to provide continual advancements in production and to launch new products to satisfy customer needs in a **profitable** way. **Innovation** is the commercialisation of these new processes, products or ideas.

In order to provide inventors with an incentive to innovate, the legal system controls and enforces the use of intellectual **property rights** (IPRs), such as **copyrights** and **trademarks**. People or firms wishing to use the IPR of others must first seek the legal permission of the IPR holder. For instance, **patents** give an entrepreneur or a business the exclusive and legal right to produce a new product or to use a particular production process. Intellectual property rights are recorded on a firm's **balance sheet**, under the section of intangible fixed assets.

Task 2: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | T |
| d. | F |
| e. | T |
| f. | F |
| g. | T |
| h. | T |
| i. | T |
| j. | F |

Task 3: Explain ...

- TV advertising is not cost effective in this case due to the huge expenses for targeting only a small proportion of the customers; TV advertising is used for mass market promotion whereas direct marketing is more focused on (and therefore appealing to) the early adopters.
- Market research is used to gain insight to what customers want (enabling the business to have a higher chance of success in the market); this could also include an investigation of any legal restrictions and parameters. Product development helps to ensure the right product is launched to meet the needs of consumers.
- Limited internal finance to fund R&D expenditure; Unlikely to be able to secure external sources of finance to fund R&D; Less able to attract/employ highly skilled/innovative workers.
- Growth opportunities, productivity gains (and hence lower unit costs), improved competitiveness (domestic and international), brand switching / brand loyalty, job creation, social benefits / social betterment.

Task 4: Multiple choice

1. B. Position mapping
2. C. Increase the earning potential of the business in the future
3. A. Market leaders
4. C. The commercial development and use of an idea or process that appeals to consumers
5. D. Reduced product failure rate
6. A. Establishing a unique selling point
7. B. Competitiveness
8. C. Process innovation
9. A. Paradigm innovation
10. B. Medicines and vitamins
11. B. Patent
12. C. A trademark
13. A. Balance sheet
14. A. Adaptive creativity
15. B. Innovative creativity

Unit 5.7

Crisis management and contingency planning

HIGHER LEVEL

Task 1: True or false?

| | True/False |
|----|------------|
| a. | T |
| b. | T |
| c. | F |
| d. | T |
| e. | T |
| f. | T |
| g. | T |
| h. | F |
| i. | T |
| j. | T |
| k. | T |

Task 2: Case study

- Consumers, Retailers (that sell Mattel toys), Pressure groups (news media reporters), Senior management (CEO and board of directors), PR Team, Employees.
- A product recall happens when a product is faulty or substandard. In this case, Mattel had to recall (take back) 28 products that were defective. Product recalls can irrevocably damage the reputation of the business, e.g. Mattel could be associated with producing unsafe and harmful toys (even though its toys are outsourced to other firms in overseas countries). Financial compensation to dissatisfied retailers and consumers would also harm the profits of the business. Hence, product recalls can be a form of crisis for businesses.
- Crisis management and contingency planning can better prepare businesses to deal with unforeseen emergencies and incidents such as the need to recall dangerous or substandard products. This would improve the multinational company's chances of surviving crises.
 - Secondly, multinational companies are more vulnerable to media exposure and pressure groups. Again, effective crisis management and contingency planning helps to minimize the damage caused by such negative publicity and to ensure its global operations remain intact.

Task 3: Multiple choice

- C. Crisis management
- B. Crisis management
- A. Anticipated
- C. Public relations savvy managers
- C. Rumours and gossiping
- A. Crisis prevention through foresight
- A. Absenteeism issues
- C. The incident planned for is less likely to occur over time
- C. Financially measurable threats
- A. A natural disaster that destroys the cinema