

Veenu Jain and Alex Smith

Cambridge IGCSE™
and O Level

Business Studies

Workbook

Completely Cambridge
Cambridge resources
for
Cambridge qualifications

Alex Smith and Veenu Jain
Cambridge IGCSE™
and O Level
Business Studies

Workbook

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SAMPLE

How to use this book

This workbook accompanies the Cambridge IGCSE™ and O Level Business Studies coursebook and aims to help you consolidate your business studies knowledge as well as develop the important skills of analysis and evaluation.

The workbook has been designed as a flexible resource to support you on your business studies skills journey. The questions are designed to provide further opportunities for you to check your understanding of particular business topics as well as your ability to provide solutions to a variety of business scenarios.

Learning summary

Each unit begins with a summary list that briefly sets out the learning aims for each section, helping you to progress through the content and understand key concepts.

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **needs, wants, scarcity and opportunity cost**
- the importance of specialisation to businesses and consumers
- the purpose of **business activity**
- what is meant by 'added value'
- how a business adds value.

KEY TERMS

Business activity: the process of producing goods and services to satisfy consumer demand.
Need: a good or service which is essential to living.
Want: a good or service which people would like, but is not essential for living.
Scarcity: there are not enough goods and services to meet the wants of the population.
Opportunity cost: the benefit that could have been gained from an alternative use of the same resource.
Consumer goods: products which are sold to the final consumer. They can be seen and touched, for example computers and food.
Consumer services: non-tangible products such as insurance services, transport.
Capital goods: physical goods, such as machinery and delivery vehicles, used by other businesses to help produce other goods and services.

Key terms

Key terms and their definitions have been included at the start of each unit to help you identify and understand important concepts within a particular topic.

Scaffolded activities

Scaffolded activities provide an opportunity for you to apply your knowledge and develop your skills in analysis and evaluation to consolidate your learning. Activities include help notes, which will be reduced as you become more confident towards the end of your course.

Activity 1.1

This activity is designed to test your understanding of business activity.

Tyche Plc is a sports goods manufacturer that makes footwear for different types of sporting activity, such as running, football and hockey. Many of the business's customers buy their goods to play sports, but also for everyday use in their lives. Tyche has experienced a good year and has seen its sales increase by 15%.

- Identify **four needs** involved in business activity. [4]
Reflect on the things that people must have as they lead their everyday lives.
- Outline **two** of the **wants** involved in Tyche's business activity. [4]
Think about the goods that you buy but do not actually need.
- Explain **two** reasons why Tyche's sales might have increased in the last year. [6]
Here you need to make a link between changes in wants/needs and Tyche's sales.



TIP

To outline, you will need to set out the main points in your answer by describing the need and want that the sports footwear is satisfying.

Tip

Tips provide additional context and useful guidance to accompany the main text and activities.

Reflection: Consider the way that you have used the case study examples from P & M Ltd to support your answers to the question. Could you improve on the amount of context that you include in your answers?

Reflection

There are opportunities for you to reflect not only on what you have learnt, but also on how you got there. Were there things you found particularly difficult or easy? Perhaps you could have approached a particular task differently and achieved a different outcome? Reflecting regularly on your learning can help you understand how you work best and what you can do to improve that next time.

Exam-style practice questions

Quick Route Ltd is a taxi business that operates as part of the tertiary sector in a local town. The business is now the biggest firm in the market with over 80 drivers. Quick Route has grown significantly over the last four years and bought out another taxi firm two years ago. Along with its regular taxi customers, Quick Route also has many contracts with local private businesses and public accounts with a hospital and the local authority. In addition, Quick Route operates a small fleet of executive cars that it uses for exclusive work at the luxury end of the market. This enables it to charge a much higher price above the normal fare.

- a Define the term 'public sector'. [2]
- b Define the term 'tertiary sector'. [2]
- c Outline **two** reasons why Quick Route might have expanded its business. [4]
- d Explain **two** possible ways that Quick Route's decision making is affected by being a private sector business. [6]
- e Do you think that Quick Route's business has been helped by targeting **three** different types of customer? Justify your answer. [6]

Total available marks: 20

Exam-style case study

Boiling Point Ltd

It has been a difficult two years for Boiling Point Ltd since the Ethiopian business was launched. Boiling Point manufactures high-quality kettles which it sells within the domestic Ethiopian market and it also wants to export to Europe. The CEO, Eskor, won an enterprise award this year for his success in running Boiling Point. The award showed how well Eskor had managed the business since it came very close to failing in its first six months.

One of the business's strengths is its ability to add value to its product and this has made the business very attractive to potential investors. Boiling Point is a good employer and is highly regarded by its staff and by the local community.

Eskor is very ambitious and wants Boiling Point to grow. He is particularly keen to start a joint venture with the established producer #Kitchen Services which specialises in kettles and water heaters for the industrial market. Appendix 1 shows information on #Kitchen Services.

Eskor has approached the Ethiopian government for a grant to support Boiling Point's growth and expansion into the European market. The government is very keen to support manufacturing businesses that want to export.

Appendix 1

Information about #Kitchen Services

- It has 20 successful years in the market and is very profitable.
- It has very good links with the market for kettles and water heaters in the domestic market and in the European market.
- There have been several recent reports of unethical behaviour within the business, such as paying very low wages to its employees.

Exam-style practice questions and case studies

Exam-style practice questions will help you to understand the style and structure of questions you may encounter in an examination.

Improve the answer...

'Improve the answer' sections follow exam-style practice questions and encourage you to use your own knowledge and skills to think about how a sample answer, written by the authors, could be improved.

Improve the answer...

Here are some ways to improve the above answer. Did you think about these?

The strengths of this answer show sound understanding of the terms 'economies of scale' and 'profits'. There is detailed discussion of two of the factors but discussion of the third factor is missing.

There could also be better discussion of economies of scale by, for example, considering some of the issues associated with economies of scale, such as diseconomies of scale emerging as Boiling Point increases in size.

There needs to be an effective conclusion that considers all three benefits of growth but makes the case for one factor over the others.

Introduction

This workbook is designed to help you develop your skills in Cambridge IGCSE™ and O Level Business Studies and to enhance your learning of the course material. A key part of this is developing your skills in the way you answer business-related questions.

Study skills

The first section goes through each aspect of what it takes to effectively demonstrate your knowledge of business studies. To do this, it goes through the following areas:

- the use of command words in questions
- how to apply your analytical and evaluative skills to business scenarios
- answering questions using business data, charts and numbers
- improving your skills through reflective learning.

How the activities are structured

Each unit in the workbook focuses on the different business studies topics followed in the coursebook. The book is structured to help you in the following ways:

Use of stimulus material

As you progress through your course, you will become familiar with answering questions in the form of short case scenarios. These questions are designed to help you practise applying key business skills to realistic business scenarios. It is important that you remember to refer to the information in the case scenarios to support your answers to questions.

Supporting guidance on activities

Many of the questions at the beginning of the workbook offer support and guidance designed to help you better understand particular question types and also build your skills. As you progress through the workbook and become more confident in answering business study questions, the amount of guidance will be reduced. Each section also includes helpful tips to improve your question technique.

Exam-style practice questions

At the end of each section you will find a series of exam-style practice questions, including short answer, data response and case study questions. The authors have written a selection of sample answers to the exam-style practice questions, with suggestions about how they could be improved. Here, you will have the opportunity to apply your own skills in order to think about and write a better answer in each case.

Importance of reflection

A key part of learning how to develop your business studies skills is through reflection. At the end of each unit, there is a guide to aspects you can reflect on based on the learning themes. When you are doing the activities, however, you should be continuously reflecting on the whole learning process and asking yourself how you can improve your answers.

Online answers

There are online answers to each activity. An effective way to improve your learning is to do the questions and use the answers to reflect on how well your business studies skills are developing.

The aim of this book is to develop and support your learning in business studies. Many of the activities put you in the position of a manager who is looking at a business and has to assess the issues and challenges that the business faces when making decisions. The questions test your knowledge and understanding of business studies but also give you the opportunity to think like a manager and make the judgements needed for effective decision making. As a company CEO once said: 'Don't guess when you are making decisions; always base your decisions on logic and reasoning.' It is worth bearing this in mind when you are answering the questions.

I would like to thank the editor of this book, Felicity Radford, for her invaluable help and advice throughout the writing process.

Alex Smith

Developing skills for business studies

What is expected from your answers to questions?

Throughout this book, you are going to answer questions that develop and improve your business studies skills. There are two key things to focus on:

- What makes an ‘excellent answer’?
- How can you learn the skills needed to produce ‘excellent answers’?

This section of the book looks at the areas that you will need to concentrate on to make your business studies skills as good as they can be.

The importance of command words in questions

The skills that you will need to demonstrate will differ, depending on the command words used in different questions. The command word is the term or phrase that appears in a question that is asking you to demonstrate a particular skill. The command words that you will become familiar with during your business studies course are:

- ‘State’ – to set out an idea, term or point in a few words.
State the breakeven output of a business’s new project. [2]
- ‘Calculate’ – to work out a value from set facts and figures.
Calculate the gross profit from the figures in an income statement. [2]
- ‘Define’ – to give the precise meaning of a term.
Define the term ‘labour turnover’. [2]
- ‘Identify’ – to name or select an idea, term or point.
*Identify **four** elements in the process of recruitment and selection of employees. [4]*
- ‘Outline’ – to set out the main points.
*Outline **two** types of external finance that a business might source to raise additional funds. [4]*
- ‘Explain’ – to establish relationships and reasons why and how things happen.
*Explain **two** reasons why strong branding is important to a business. [6]*
- ‘Justify’ – to make a reasoned argument that is supported by evidence.
Do you think that a business should expand its market by locating in another country? Justify your answer. [6]
- ‘Consider’ – evaluate the information you have been provided with
Consider whether you think Sani is right to relocate her business operation to Mexico. [6]

Developing skills for business studies

There are specific areas of knowledge and skills that you will learn whilst studying business, and this workbook contains questions which will help you to develop and practise these skills, including:

- knowledge and understanding of business facts and theory
- application of business facts and theory
- analytical skills in the way you use evidence and reason
- evaluative skills by making judgements and recommendations.

You will not be expected to demonstrate all of these skills at the same time, but the different questions will develop these skills in stages as you move through a whole question.

The workbook contains exam-style practice questions at the end of each unit which have been written by the authors. You will find sample answers (also written by the authors) for you to work on improving, which will help you to practise how to further develop your skills.

Knowledge and understanding

You will need to demonstrate an accurate knowledge and understanding of all the material you have studied during your course. All types of question are designed to help check your knowledge and understanding, but knowledge-based questions often use the command words 'identify' and 'state'. Here is an example of how you might need to show your knowledge and understanding. Look at the sample answer given and decide what you might do to improve it before reading on:

Q Identify **four** types of external stakeholder that the retailer LNM might have. [4]

Have a go at this question and then compare your response to this sample answer. How does your answer compare?

Government, local community, customers and suppliers.

Application

To answer questions effectively, you need to apply your knowledge and understanding of business facts, ideas and theory to business situations. This means answering clearly and accurately by using the case study material. This is crucial in answering all types of questions. Here is an example of a question which uses the 'outline' command word:

Q Outline **two** types of sources of finance that ABC Farm might use to buy a new piece of equipment. [4]

Have a go at this question and then compare your response to this sample answer. How does your answer compare?

ABC Farm could use retained profit from previous years. This is profit made each year by the farm and the funds are accumulated in the bank to buy, for example, a new tractor. It could also lease the machinery from a finance company. ABC Farm pays a sum of money each month to a finance company to pay for a new tractor but doesn't actually own the tractor.

Analysis

Analysis is a crucial skill that you need to develop in business studies and questions where you need to demonstrate this skill often contain the command word 'explain', or 'justify'. This means making a point and then making links to how and why something happens. Consider this question, for example:

Q Explain **two** reasons why toy manufacturer XYZ has seen a fall in its employees' motivation in the last year. [6]

Have a go at this question and then compare your response to this sample answer. How does your answer compare?

The new manager in the factory has adopted an autocratic leadership style and changed people's working patterns to make their jobs more repetitive, which has had a bad effect on worker morale. Autocratic management can often lead to conflict between managers and workers which reduces motivation. Repetitive tasks can make work boring which does not satisfy one of Herzberg's hygiene factors and this can reduce motivation.

Evaluation

The ability to evaluate is a very important skill needed for business. Questions that use the command word 'justify' are looking for you to make judgements about the argument that you have developed in your answer. You will need to demonstrate effective knowledge and understanding, application, and analysis but you will then need to build on this by making judgements about the points that you make. This can be done by:

- stressing the relative importance of the point that you have made
- suggesting a weakness or opposing view
- considering how the argument developed could change over time
- questioning any assumptions that you have made.

This is an example of a question which requires evaluative skills:

Q Is the best way to improve labour productivity at RST car manufacturing to invest in new technology on the production line? Justify your answer. [6]

Have a go at this question and then compare your response to this sample answer. How does your answer compare?

Investing in new technology means that RST could buy new machinery that it could use on the production line to improve worker efficiency. If worker efficiency rises then this would lead to a rise in labour productivity. Labour productivity can be measured in output per employee (output/number of employees). This would mean that RST can produce more cars from its existing workforce and increase its revenue and profits. The problem for RST will be the cost of the machinery and it may mean that some workers will lose their jobs. Investing in new machinery may also be disruptive in the short term and RST needs to think about the effect that the new machinery might have on worker motivation. Another way to improve productivity could be to improve worker motivation by using financial incentives, but if worker productivity is limited by machinery then investment in machinery would be the best option. In conclusion, to be competitive in the market where other firms are improving productivity, it is important to invest in new technology.

Using stimulus and case study material

All the questions in this workbook are based on stimulus material. In the main sections of the book, this appears in the form of short business scenarios that provide data and additional context for a particular question. In the exam-style practice questions, you will encounter stimulus material in both the exam-style practice questions and in the exam-style case studies located at the end of each section of the book.

The stimulus material and the questions in the book are designed to help you apply the knowledge and skills you have acquired during your course.

- For short answer and data response questions, you will be provided with a piece of stimulus material which will take the form of a business scenario. It is important that you refer to these business scenarios and any supporting data in your answers.

- For case study questions, you may be presented with additional stimulus material in the form of appendices. You should remember to refer to any relevant data that may support your argument in your answers.

Using numbers and charts

Some of the questions that you answer will involve the use of data, diagrams, charts and calculations. Being able to use this type of information effectively is a very important business skill. The questions in the book that involve the use of numbers and charts will require you to:

- show knowledge and understanding of data used, for example by showing your understanding of a pie chart that shows the market share of different businesses in an industry
- be able to apply data to a business situation, for example, explaining what a rise in cash inflow means for a business's liquidity
- be able to calculate a figure from a given set of data, such as using revenue and cost to calculate profit
- analyse data to explain business issues, such as what rising revenue figures tell us about the effectiveness of a marketing strategy
- evaluate the usefulness of data and make judgements. If, for example, the gross profit figure is falling, does it mean that the business is failing to control cost efficiently or is it caused by another factor such as falling prices?

This is a sample question and answer

The table shows the income statement for food manufacturing business RST for the last two years.

\$m	Year 1	Year 2

Have a go at this question and then compare your response to this sample answer. How does your answer compare? How would you improve the sample answer?

- a** Calculate the growth profit of business RST for 2016 and 2017. [2]
Gross profit = sales – cost of sales
 Year 1 \$1.8m
 Year 2 \$1.9m
- b** Outline the difference between revenue and cost of sales. [4]
The revenue is the income of business RST which is calculated by multiplying units sold by selling price. Cost of sales is purchase cost of the inventories used to produce the final good sold.
- c** Explain **two** reasons why RST's sales revenue might have increased from 2016 to 2017. [6]
The first reason that RST's revenue might have increased is because of effective advertising for its food products which makes them more attractive to consumers and leads to an increase in demand. As demand increases, RST's revenue would rise. The second reason might be an increase in the price of a competitor's products which means that some of their consumers switch to RST's goods as a lower-priced alternative. This leads to a rise in RST's units sold and revenue.
- d** Is a rise in the gross profit for RST a sign of a high-performing business? Justify your answer. [6]
Gross profit is one way of measuring the performance of RST because it tells us about RST's ability to sell its food products and generate revenue. The more revenue that RST generates, the better its

performance on this measure because, for example, it may be making food products that are high quality and attractive to the consumer. The second reason the rise in gross profit is an indicator of high performance at RST is because the business is able to manage its cost of sales effectively, which keeps costs low and increases gross profit. RST may be doing this by negotiating a low price with its suppliers. This rise in gross profit is, however, not compared with other firms in the market who have increased their gross profits by more than RST, which would mean its performance had not improved as much. In conclusion, rising gross profit is normally seen as an improvement in performance if it is sustained over a period of time and relative to other firms in the market.

Improve your skills through reflective learning

At the end of each unit in this book, there is a short section on reflection which gets you to think about what you have learnt in the unit and how you could improve next time. If you follow the process of reflection throughout the book, your understanding of the subject will improve and you will write better answers to questions.

Here is a reflective process you could use when you are doing the activities in this book:

- Complete one of the activities in the book.
- Review your answers and critically examine them against the assessment objectives.
- Compare your answer to the answers given online.
- Think of the areas that you need to improve.
- Put the improvements that you have thought of into practice when you do the next activity.

Consider this example of the reflective process by completing the following sample question

ARC Limited is a small retail business that owns shops that cut keys for consumers. The business was started four years ago by Luis, who is operating as a sole trader. The market is highly competitive with a number of supermarkets operating a similar service within their stores and a new online service that has affected ARC for the last two years. Luis would like to develop the business by expanding into the industrial market by selling keys and locks to businesses. This will require significant finance and an investor has already approached ARC to finance the new venture in return for being made a partner.

- a** State **two** sources of external finance that may be available to ARC. **[2]**

Sample answer: Bank loan, trade credit.

Reflection: How good is my knowledge on sources of finance?

- b** Define the term 'sole trader'. **[2]**

Sample answer: This is a business owned and controlled by one person who takes all the risks and all the profits.

Reflection: Did I use precise business terminology?

- c** Outline how competition for ARC might affect the demand for its products. **[4]**

Sample answer: Competition from supermarkets might affect the demand for ARC's products because they are a competitor to ARC. If customers go to the supermarket to get their keys cut and

not ARC then the sales revenue of ARC will fall. The online business also represents competition. If customers use the online business, they will buy fewer keys from ARC and its revenue will fall.

Reflection: Did I apply the case example clearly to support my answer?

- d** Explain **two** reasons why expanding into the industrial market might benefit ARC. **[6]**

Sample answer: The industrial market means selling keys and locks to a new market. The new market would mean more revenue to ARC because it would be selling more products and industrial customers may buy keys in very large quantities.

Reflection: Am I making it clear why ARC's expansion into the industrial market will be beneficial to the company?

- e** Do you think Luis should accept the partnership offer of the new investor? Justify your answer. **[6]**

Sample answer: By taking finance from the investor, Luis would get the funds to invest in the new industrial market and this would give him the opportunity to grow his business. It would also enable him to spread the risk of his business across different markets in case one market went into decline. It would, however, mean that he would lose some control over the business because the investor wants to become a partner. This could be a problem if the new investor wanted to take ARC in a direction that Luis did not want. Luis should take the funds from the outside investor because the new competition from supermarkets and online businesses is going to make it increasingly difficult for ARC and the new partner's input could be useful to ARC.

Reflection: Have I developed my argument to justify the conclusion I have come to?

Section 1

Understanding business activity

1 Business activity

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **needs, wants, scarcity** and **opportunity cost**
- the importance of specialisation to businesses and consumers
- the purpose of **business activity**
- what is meant by ‘added value’
- how a business adds value.



KEY TERMS

Business activity: the process of producing goods and services to satisfy consumer demand.

Need: a good or service which is essential to living.

Want: a good or service which people would like, but is not essential for living.

Scarcity: there are not enough goods and services to meet the wants of the population.

Opportunity cost: the benefit that could have been gained from an alternative use of the same resource.

Consumer goods: products which are sold to the final consumer. They can be seen and touched, for example computers and food.

Consumer services: non-tangible products such as insurance services, transport.

Capital goods: physical goods, such as machinery and delivery vehicles, used by other businesses to help produce other goods and services.

2

Activity 1.1

This activity is designed to test your understanding of business activity.

Tyche Plc is a sports goods manufacturer that makes footwear for different types of sporting activity, such as running, football and hockey. Many of the business’s customers buy their goods to play sports, but also for everyday use in their lives. Tyche has experienced a good year and has seen its sales increase by 15%.

- Identify **four needs** involved in business activity. [4]
Reflect on the things that people must have as they lead their everyday lives.
- Outline **two** of the **wants** involved in Tyche’s business activity. [4]
Think about the goods that you buy but do not actually need.
- Explain **two** reasons why Tyche’s sales might have increased in the last year. [6]
Here you need to make a link between changes in wants/needs and Tyche’s sales.



TIP

To outline, you will need to set out the main points in your answer by describing the need and want that the sports footwear is satisfying.

Activity 1.2

This activity tests your knowledge of the different factors of production.

A car manufacturer uses the following resources to produce and sell its cars:

- land
- labour
- capital
- enterprise.

Identify the type of resource in each case by completing Table 1.1.

Resource	Type
The family that initially started the business	
Plastic to use in car interiors	
Workers who work on the production line	
Metal to use in the production car bodies	
Employees who work in the finance department	
Robot technology used on the production line	
The business's IT system	
The shareholder in the car manufacturer	

Table 1.1

Activity 1.3

This activity develops your understanding of scarcity and opportunity cost.

D7 Ltd is a small jewellery business that buys diamonds and makes high-quality rings, necklaces and brooches. D7 is a small family business that is struggling to raise the finance to buy increasingly expensive diamonds. As a result of spending so much money buying diamonds, the business has had to postpone buying a new diamond-cutting machine.

- a** State the opportunity cost of D7 Ltd spending increasing amounts of money on diamonds. [2]

To 'state', you need to demonstrate knowledge and understanding by setting out the opportunity cost of spending on diamonds in clear terms.

- b** Explain, using the concept of scarcity, why diamonds are expensive. [6]

Think about the limited supply of diamonds and the high demand that there is for them.

Activity 1.4

Consider the following goods and services in Table 1.2 and identify whether they are:

- consumer goods
- consumer services
- capital goods.

Product	Type of good or service
A dress bought by a mother for her daughter's birthday party	
A new building bought by a school	
A personal computer sold in an electrical retailer for home use	
Financial advice offered by a bank to a person thinking of retiring	
The ticket bought for a professional football match	
The vehicles bought by a distribution company	

Table 1.2

Activity 1.5

P&M Ltd is a national magazine company that has over 50 magazine titles that it sells throughout East Asia. It specialises in producing magazines for the sports and recreation market for consumers who are serious enthusiasts. Titles include monthly golf, cycling, fitness and walking magazines. P&M Ltd is seen as a high-value-added business. Its retail price is high but consumers are willing to pay a high price for the quality of the product.

The business is soon to open a new office in the United States to develop its magazine titles there. This will require a \$15 million investment in a new building and equipment. To do this, P&M will have to give up a plan to upgrade its IT.

- Define the term 'value added'. [2]
- Outline the buyers' want being satisfied by P&M magazines. [4]
Clearly set out why people read the type of magazines that P&M Ltd produces.
- State the opportunity cost of P&M Ltd opening an office in the United States. [2]
Try to clearly show the alternative choices that the business will have to give up due to opening the office in the US.
- Outline the capital and labour resources that P&M Ltd will need when it opens its new office in the United States. [4]
It is important to give examples of the labour and capital resources when it opens the new office.
- Consider whether you think that P&M Ltd is right to specialise in magazines for 'serious enthusiasts'. Justify your answer. [6]
Start by explaining and analysing the advantages for P&M Ltd of specialising and then explain and analyse that disadvantages of P&M Ltd specialising. Finish by evaluating the overall impact to P&M Ltd of specialising.

Reflection: Consider the way that you have used the case study examples from P&M Ltd to support your answers to the question. Could you improve on the amount of context that you include in your answers?

TIP

Use precise terminology when you are defining key terms.

TIP

'Justify' means supporting your case with evidence or argument. This requires evaluative skills, which means making a judgement about how P&M benefits from adding value.

2 Classification of businesses

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **primary, secondary and tertiary sector** business activity
- the changing importance of the classification of business activity by sector for developing and developed economies
- how business enterprises are classified in the **private sector** and the **public sector**.



KEY TERMS

Primary sector: firms whose business activity involves the extraction of natural resources.

Secondary sector: firms that process and manufacture goods from natural resources.

Tertiary sector: firms that supply a service to consumers and other businesses.

Private sector: the part of the economy that is owned and controlled by individuals and companies for profit.

Public sector: the part of the economy that is controlled by the state or government.

Mixed economy: an economy where the resources are owned and controlled by both the private and the public sectors.

Activity 2.1

This activity is designed to check your understanding of the primary, secondary and tertiary sectors of the economy.

In Table 2.1, there is a list of goods and services which need to be matched with the business activity they are associated with.

Good or service	Business activity (primary, secondary, tertiary)
Dentist	
Fishing	
Musical instrument	
Fridge	
Social media app	
Soya beans	
Personal computer	
Airline ticket	
Diamond mining	

Table 2.1



TIP

When you are choosing whether a good is primary, secondary or tertiary, think about how the good or service is produced.

Activity 2.2

This activity will help you to check your understanding of how business operates in the private and public sectors.

A local hospital in a town near Mumbai is owned and controlled by the government and is the biggest employer in the town. People work as doctors, nurses, chemists, laboratory staff and administrators. They also use the services of two limited companies. One provides cleaning services and the other does the hospital's catering.

- a** Outline why the hospital is in the public sector and the limited companies that provide its services are in the private sector. [4]

Try to focus clearly on the factors that make an organisation private or public sector.

- b** Explain why the hospital and the businesses that service it are an example of organisations in a **mixed economy**. [6]

This 'explain' question wants you to show your analytical skills by making connections between the ownership of an organisation and the nature of the economy.

Activity 2.3

This activity checks your knowledge and understanding of a public sector tertiary business.

Ganji Academy is a local state-funded and managed school based in Bangladesh. It is a secondary school that has 1500 students from a local town and surrounding area. The school has a good reputation for discipline and academic standards. The school's mission statement is 'Giving our students the best all-round education possible' and all management decisions taken have this mission in mind.

- a** State whether the Ganji Academy is in the primary, secondary or tertiary sector. [1]
- b** Explain how Ganji's decision making is affected by being a public sector rather than a private sector business. [6]

It is important here to think about the role of profit in influencing private and public sector businesses.

Activity 2.4

These questions get you to look at the aims and decision making of a private sector tertiary business.

The market for coffee shops has grown dramatically over the last ten years. Large chains of coffee shops are now present in many high streets along with many independent coffee outlets. Australian consumers enjoy lattes, cappuccinos and espressos as well as the high-quality pastries, cakes and sandwiches that go with them.

- a** State **two** possible aims of the decisions made by businesses in the coffee shop market. [2]

Think of all the aims that businesses might have in the private sector.

- b** Outline how the coffee shop market in Australia makes private sector decisions in terms of what, how and for whom to produce goods and provide services. [4]

A strong answer would use an example of how resources are allocated through the coffee shop market.

Activity 2.5

The aim of this activity is to test your understanding of a market where there is some debate as to whether businesses should operate in the private sector or the public sector.

NPV rail is a train company that operates trains in the southern region in Argentina and it is in the tertiary sector of the economy. It is a private sector business that aims to make a profit of \$200 million each year. The company also has the aim of increasing its profit by 4% in each of the next four years. One of the ways that the company aims to increase its profit is by introducing new technology and cutting costs. Many of the workers at NPV are worried by the threat of redundancies in an attempt to reduce costs.

a Define the term ‘tertiary sector’. [2]

Write your definition precisely using exact terminology.

b Outline **two** possible objectives of NPV rail as a private sector business. [4]

Think about the aims that private sector businesses have to be successful.

c Do you think that NPV as a private sector business is good for its customers and workers? Justify your answer. [6]

Start your answer by explaining why NPV being a private sector business is good for customers. For example, it has the freedom to provide services that satisfy consumer demand. Then evaluate this by, for example, explaining how private sector businesses may increase prices to consumers to increase their profits.



TIP

When you are answering this ‘justify’ question, you need to make judgements about whether shareholders and workers benefit from NPV being in the private sector.

Reflection: Think about the things that you have learnt about the different types of sectors that businesses exist in. What do you need to know in order to give clear justifications for answers in this unit?

3 Enterprise, business growth and size

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **entrepreneurs** and enterprise
- **business plans**
- how to measure business size
- why some businesses grow
- why some businesses fail.



KEY TERMS

Entrepreneur: an individual who has an idea for a new business and takes the financial risk of starting up and managing it.

Business plan: a detailed written document that outlines the purpose and aims of a business and that is often used to persuade lenders or investors to finance a business proposal.

Revenue: the amount that a business earns from the sale of its products.

Start-up business: a newly formed business. Such a business usually starts small, but some might grow to become much bigger.

8

Activity 3.1

The aim of this activity is to improve your knowledge of the characteristics of an entrepreneur.

Costanza is going to start her own social media business. Complete Table 3.1 by matching these examples of how Costanza might show the characteristics of a social entrepreneur:

- has ideas about a new app
- knows a large number of people in the industry
- has used her house to secure a loan to start the business
- sorted out a funding problem by arranging a new type of loan
- sells her business enthusiastically
- works very long hours
- wants to achieve a **revenue** of \$5m in three years
- is never afraid to stand up in front of her workforce and talk about her vision for the business
- has a degree in business and an accountancy qualification.

Think about some of the well-known entrepreneurs you know when considering the characteristics of entrepreneurs.

Innovative	
Self-motivated and determined	
Self-confident	
Multi-skilled	
Has strong leadership qualities	
Takes initiative	
Results-driven	
Risk-taker	
Good networker	

Table 3.1

Activity 3.2

These questions help to develop your understanding of what is in a business plan and how it might be useful to different stakeholders.

Himari is close to starting a new business in Japan. After resigning from her job with a management consultancy firm, she wants to open a shop selling greetings cards. The local market for greetings cards is growing strongly and there is a clear opportunity for her to start a successful business. She has approached an important investor to raise finance and they have asked for a detailed business plan. Himari is interested in government support that might be available to new small businesses.

- Identify **four** ways that the government could support Himari's new business. [4]
Here you need to take an element of a business plan, such as financial forecasts, and set out what might be in the forecast.
- Outline **two** elements that might be in Himari's business plan. [4]
- Explain **two** reasons why Himari's business plan might be useful to the investor. [6]
Take something from the business plan, such as financial forecasts, and link this to information that will be useful to the investor.

Activity 3.3

This activity helps you to look at how the sizes of businesses are measured.

Home-shop PLC is a large retail organisation based in Mexico that employs 70 000 workers and has revenue of \$1.2 billion. Out-there PLC is another Mexican business. It is a social media company that employs 25 000 people and has revenue of \$3.8 billion. The Mexican government gave significant support to Out-there PLC when it was a small **start-up business** just 10 years ago.

- State **two** other ways that you would measure the size of a business other than revenue and number of employees. [2]
- Explain why it is difficult to compare the size of the retail business with the social media business. [6]
This 'explain' question is making you analyse by making links between the way that business size is measured in different industries. Think about, for example, the number of people needed to provide the service in a retailer compared to a media company.



TIP

For this 'state' question, you just need a list of two points here.

- c Do you think that it is right for governments to support start-up businesses such as Out-there PLC? Justify your answer. [6]

Start your answer by explaining the benefits to the Mexican economy of government support for new start-ups such as bringing innovation into new markets. Then evaluate this by, for example, discussing the financial cost to the government of state intervention.

Activity 3.4

The aim of this question is to consider the reasons why organisations grow and to investigate the problems of growth.

TEMPO manufactures musical instruments for the Swedish market. The business was started in 1999 as a small family firm but has grown in size and is now looking to expand by selling in overseas markets. Martin, the CEO of TEMPO, has driven growth very hard since he took charge three years ago. One option for expanding into overseas markets is for TEMPO to buy a local manufacturer in Germany.

- a State **two** ways that TEMPO could expand its business. [2]
- b Outline **two** reasons why TEMPO might want to expand its business. [4]
- c Explain **two** problems that TEMPO might face as it tries to expand its business by buying the German manufacturer. [6]

Think about the benefits that the business might gain from growth.

Try to set out the problems of growth for TEMPO, such as diseconomies of scale, and analyse the impact of these problems on TEMPO.

Activity 3.5

These questions make you think about issues facing small businesses.

Salma is planning to open her first business, which will be a small fast-food restaurant that specialises in the growing organic takeaway food market in Jordan. The food she intends to serve is all sourced from local farms, which is very popular with local people. Her emphasis will be on high quality and good value for money. Salma is an expert in cooking organic food and she wants to employ skilled, like-minded people in her business. The local fast-food market is, however, very competitive. When Salma approached the bank for a loan, they said she was in a strong position to be successful but warned her about the high risk of business failure amongst new small businesses. The bank is also concerned about her lack of business experience.

- a Identify **four** reasons why businesses might fail. [4]
- b Outline **two** benefits to Salma's fast-food restaurant of being a small business. [4]
- c Do you think that Salma is in a good position to start a successful business? Justify your answer. [6]

Remember that you just need to make a list of reasons here.

Think about the fast-food restaurants that you know and why they might benefit from being small.

Begin your answer by explaining the strengths that Salma's business might have to make it successful, such as her expertise as a cook. Then evaluate this by considering some challenges that Salma might face, such as her lack of business experience.

Reflection: Consider the things that you have learnt about how and why businesses grow. How can you use examples more effectively in your answers to illustrate the issues associated with business growth?

TIP

'Explain' questions are testing your analytical skills. In this question, try to reason links between the problems that you identify and their effect on TEMPO.

4 Types of business organisation

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- the characteristics of different types of business organisations in the private sector
- differences between **unincorporated businesses** and limited companies
- risk, ownership and **limited liability**
- business organisations in the public sector.



KEY TERMS

Unincorporated business: a business that does not have a legal identity separate from its owners. The owners have **unlimited liability** for business debts.

Unlimited liability: if an unincorporated business fails, then the owners might have to use their personal wealth to finance any business debts.

Limited liability: the shareholders in a limited liability company which fails only risk losing the amount they have invested in the company and not any of their personal wealth.

Private limited company: often a small to medium-sized company; owned by shareholders who have limited liability. The company cannot sell its shares to the general public.

Public limited company: often a large company; owned by shareholders who have limited liability. The company can sell its shares to the general public.

Ordinary shareholders: the owners of a limited company.

Activity 4.1

This activity assesses your understanding of the risk, ownership and liability associated with a sole trader and a partnership.

Five years ago, Sam Magoge started off as a sole trader offering his services as a plumber. His business has grown substantially and he has built himself a very good reputation, known for good-quality service and completing jobs on time.

He wants to expand and also start taking up painting and decorating jobs. To keep up with the demand, he needs someone to work with him permanently. He is evaluating two options, either to become a partnership or to continue on his own and hire more employees instead.

- a** Define the term 'partnership'. [2]

Make sure that you include the number of people involved and identify at least one more feature.

- b** State the difference between limited and unlimited liability. [2]

Focus on debt and the risk associated with the business.

**TIP**

When comparing and choosing between two options, always analyse the advantages and disadvantages of each. This will help in justifying your choice.

- c Identify **two** differences between a sole trader and a partnership. [4]
- d Give **two** reasons why a sole trader might find it hard to compete with larger firms in the same industry. [4]

This question requires you to analyse the characteristics of a sole trader.

- e Do you think that Sam should engage a partner or carry on working as a sole trader and hire more employees instead? Justify your answer. [6]

Identify one or two important advantages and disadvantages for Sam of forming a partnership and develop at least one.

Identify one or two important advantages and disadvantages for Sam of being a sole trader and develop at least one.

Compare the two. Assess the advantages/disadvantages of each and evaluate which might be best suited in this case.

Activity 4.2

In this activity, you will have to use your knowledge and understanding of private and public limited companies.

TM Textiles Pvt. Ltd has been manufacturing towels and bed linen for ten years now. It is currently owned by a very close group of ten friends and family members and communication is very fast. The company has been very successful and has established itself as a trusted local brand. It wants to expand its operations further and wants to sell its products to the international market. It needs to buy new machinery and expand its current site. The directors of the company want to go public but some of the **ordinary shareholders** are reluctant to turn from a **private limited company** to a **public limited company**.

- a Define a limited company. [2]

Explain what is meant by a limited company.

- b Outline **two** reasons why some of the shareholders are reluctant to become a public limited company. [6]

Identify the features of a public limited company and analyse why they might be disadvantages.

Remember to answer the question in context.

- c Explain **two** differences between private and public limited companies. [4]

The question is not specific to the business scenario so focus on analysing the differences rather than answering in context.

- d Do you think that TM Textiles Pvt. Ltd should go public or take a loan from a bank to finance its expansion? [6]

Consider and analyse both the advantages and the disadvantages of the two methods in context; going public versus remaining private and taking a loan.

Evaluate and justify your recommendation.

Activity 4.3

In this activity, you will be relying on your understanding of the characteristics of a franchise.

Nanda has been working as a hotel manager for ten years now but feels that it is time to move on and set up something on his own, such as a restaurant. While he thinks that he has good experience and expertise in the hospitality industry, he is not fully confident about starting up on his own and does not want to start an unincorporated business. With the money that he has saved in the last ten years, he has decided to buy a franchise in a popular national fast-food chain.

a Define a franchise. [2]

Keep your explanation clear and concise. An example will not help in a definition question.

b Explain why Nanda does not want to start an unincorporated business. [4]

This question is very specific to Nanda so explain the answers in context, using the information from the question.

c Identify **two** factors that affect the type of organisation that a person chooses to start their own business. [4]

The question is not specific to the business scenario so focus on analysing the factors rather than answering in context.

d Explain **four** advantages to Nanda of owning a franchise. [8]

Identify four advantages and then analyse them in context.

Reflection: What do you need to consider when applying your knowledge to a business scenario?

5 Business objectives and stakeholder objectives

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- need for business **objectives**
- different business objectives
- objectives of social enterprises
- internal and external stakeholders
- objectives of **stakeholder** groups.



KEY TERMS

Objective: a statement of a specific target to be achieved. Objectives should be SMART.

Stakeholder: an individual or group which has an interest in a business because they are affected by its activities and decisions.

Activity 5.1

This activity assesses your understanding of the need for different types of business objectives.

Swami and Vina are both software developers, and have been partners for three years, making websites for small- to medium-sized businesses. They have developed a large client base and are finding it hard to cope with the increasing demand for their services. They have realised that they need to expand their business.

They have some friends who are experts in the same field and have helped them in the past. Swami and Vina are forming a private limited company and have asked their friends to join them. They have named their new company TekSmart Pvt. Ltd and are thinking about what business objectives to set for their company.

- a** Define a business objective. [2]

This is a simple question which only requires a definition.

- b** Outline the criteria that should be used to set clear and effective objectives. [4]

Think about what hints there are in the question about how long your answer might need to be. In this case, there are five criteria to list.

- c** Identify **four** objectives that the owners of TekSmart Pvt. Ltd could set. [6]

Use your knowledge on this topic to identify possible objectives and explain them as relevant to the business.

Activity 5.2

This activity assesses your understanding of the objectives of a social enterprise.

Kamaria owns a small shop in Zambia, selling handcraft items. Kamaria likes to source her items personally from the villages close by. When doing this, she has noticed the great talent that the people have and also their lack of knowledge about how to sell their products.

Looking at the challenges faced by the people in the villages, Kamaria started a social enterprise to support them. It provides the necessary funding and space for the local people to create handcraft items and receive a salary.

Kamaria has got in touch with a few public corporations who can help grow the small handcraft industry in the area by giving the villagers some basic training in running and managing a small business and holding exhibitions for them to show their products.

- a Define a social enterprise. [2]
- b Explain how the objectives of Kamaria's social enterprise are different from that of her shop. [4]
Remember to apply your explanation to the business.
- c Identify **two** characteristics of a public corporation. [2]
- d Explain **two** ways that the public corporations might be able to help the village people who make the handcrafts. [4]
Read the question carefully to identify how the public corporations might help and explain the benefit of their assistance.



TIP

Though stakeholders are all affected by business decisions, they all have different objectives.

Activity 5.3

This activity assesses your understanding of the different types of stakeholders and how their objectives differ.

CHL Group Pvt. Ltd, a family owned business, is a producer of luxury chocolates. It has a factory in its home country and buys its main ingredient, cocoa, from another country. It has a hardworking workforce and a good relationship with its suppliers. For two years, CHL Group's main objective has been survival, but now it wants to expand and has profits and growth as its main objectives.

Local pressure groups have been demanding that CHL Group stops using its suppliers from another country as they are known to use unethical practices. Also, the pressure groups want CHL Group to use the locally grown cocoa as it will be good for the local suppliers and the home country's economy. The shareholders of the company are not so sure about changing suppliers as they feel that the local cocoa is not of the same quality.

- a Outline the **two** main types of stakeholders and give an example of each. [4]
This is another 'outline' question. Make sure that your examples use the context from the scenario.
- b Identify **three** stakeholders of CHL Group and explain their objectives. [6]
Think of both internal and external stakeholders and explain their objectives in the context of this business scenario.
- c Consider why the objectives of CHL Group have changed from survival to profits and growth. [4]
Think about the different considerations that a business needs to think about when it starts and then once it has established itself.
- d Identify **two** stakeholders who may have conflicting objectives. [4]
Think about the demands of the pressure groups and the impact that these would have on different stakeholders.

Reflection: What do you need to consider when analysing a business decision?

Activity 7.2

The aim of this activity is get you to focus on the span of control and the factors that affect it.

Hot Crust bakery operates in a large city in South Africa and in the surrounding region. It is a medium-sized family business that has seen the number of layers in its **hierarchy** increase over time as the business has grown. The new CEO Karabo wants to reduce the layers in the hierarchy. This has implications for managers who will see their span of control increase.

TIP

'State' questions ask you to express your answer simply, in clear terms.

- Define the term 'span of control'. [2]
- State **two** factors that might determine the span of control of a manager. [2]
As this is a 'state' question, simply list two factors that determine the span of control.
- Explain why the span of control tends to widen as Hot Crust reduces the layers in its hierarchy. [6]
*Analyse the link between the number of **subordinates** responsible to a manager and the layers in Hot Crust's hierarchy.*

Activity 7.3

This activity is about the way that leadership styles affect an organisation.

Pug Gym is a chain of gyms managed by Wen and Jackson, who are brother and sister. Wen is the CEO and Jackson is the financial director. They have contrasting management styles. Wen likes to make all the significant decisions and rarely delegates. Jackson is much more consultative and likes to involve the people in his team in decision making. Wen's and Jackson's contrasting leadership styles are seen as a weakness and a major investor would like Pug Gym to adopt a more democratic approach.

- Outline the ways that a manager might delegate a decision at Pug Gym. [4]
Focus on how a manager at Pug Gym might involve their subordinates in decision making.
- Outline **two** characteristics of the **autocratic leadership** style of management. [4]
Try to give examples of how autocratic managers manage their subordinates and make decisions.
- Consider why Pug Gym might benefit from a more democratic style of management through the organisation. Justify your answer. [6]
*Start by considering the benefits of **democratic leadership** such as workers responding well to being involved in decision making, then consider the problems of democratic leadership.*

Activity 7.4

In this activity, you need to show your knowledge of the different functions of management.

The following are the functions of management:

- planning
- organising
- commanding
- coordinating
- controlling.

Match the examples of the work of managers with each of the functions in Table 7.2.

Make sure that you are clear on the meanings of the individual words used to describe managerial functions as it will help you understand what each type of manager does.

Example	Function
A team of employees have to report their monthly sales figures to a manager.	
A manager holds a team meeting because they feel that the team is under-performing.	
Managers hold a meeting to work out a strategy to achieve the coming year's profit target.	
A manager puts together the resources that each team will need when they are going out to sell to customers.	
The sales manager works with the production manager to make sure that enough of the final product will be available to meet customer demand.	

Table 7.2

Activity 7.5

This activity encourages you to show your knowledge and understanding of democratic management along with the relationship between management and trade unions.

The board of directors at Asprilla Engineering Ltd are struggling with poor industrial relations between the company's management and the workforce. Several industrial disputes have been costly in terms of the firm's loss of output and their reputation amongst customers. The directors have created a strategy that will decentralise decision making, allow more democratic leadership and provide better relationships with the trade union that represents many of its workers.

- State **two** functions of company directors. [2]
- Outline **two** characteristics of democratic management. [4]
Think about the ways that democratic managers treat their subordinates and make decisions.
- Explain **one** problem associated with decentralised decision making. [6]
An example of what you might consider here is how increasing involvement of the workforce in decision making might affect the decision-making process.
- Why might a better relationship between Asprilla Engineering's management and the trade union benefit the company? Justify your answer. [6]
First analyse how the effects of better relationships between Asprilla's management and the union, such as reduced industrial disputes, will benefit the business. You could go on to discuss some of the problems of working with a trade union.



TIP

Be analytical with 'explain' questions by making links between the nature of decentralised decision making and problems caused by it.

Reflection: Consider what you have learnt about the way that different organisations are organised and managed. How effectively have you used the work of the different management theorists in your answers to the questions?

8 Recruitment, selection and training of employees

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- recruiting and selecting employees
- the importance of training
- methods of training
- reasons for reducing the size of the workforce
- legal controls over employment.



KEY TERMS

Internal recruitment: filling a vacant post with someone already employed in the business.

External recruitment: filling a vacant post with somebody not already employed in the business.

Job description: a list of the key points about a job, job title, key duties, responsibilities and accountability.

On-the-job training: training in the workplace, watching or following an experienced employee.

Off-the-job training: training that takes place away from the workplace, for example at college, university or a specialist training provider's premises.

Redundancy: termination of employment by the employer because the job is redundant (doesn't exist anymore) due to a restructure of the business.

30

Activity 8.1

The aim of this question is to check your knowledge and understanding of recruitment.

Recruiting the highest-quality staff has always been a key aim of Peace of Mind Security Ltd. The business produces security systems and is based in Dubai. It recruits employees who are well qualified and highly skilled. It rewards the people it employs with pay well above the industry average and with generous benefits. Peace of Mind Security always considers **internal recruitment** first when it is recruiting for a new position but uses **external recruitment** if there is not the appropriate person internally.

- State the difference between internal and external recruitment. [2]
Think about the processes of recruiting staff from inside and outside the organisation.
- Outline **two** benefits to Peace of Mind Security of using internal recruitment. [4]
Consider things such as recruiting employees who have good knowledge of the organisation.
- Explain why external recruitment has higher costs than internal recruitment. [6]
Try to make links between things such as advertising for employees and how this might increase costs.



TIP

This 'explain' question is looking for you to analyse by saying how and why external recruitment costs more than internal recruitment.

Activity 8.2

This activity will help you to apply your knowledge of the recruitment process.

Table 8.1 sets out nine stages in the recruitment process. You need to put the stages into order from 1–9, 1 being the start of the process.

Stage	Number order
A shortlist is selected from all the applicants.	
Application forms and job details are sent out.	
A person specification is produced.	
The business identifies the need for a new employee and carries out a job analysis.	
The right candidate is selected.	
A job description is produced.	
The job is advertised.	
Completed applications are received.	
Shortlisted candidates are interviewed.	

Table 8.1

Activity 8.3

This activity gets you to think about the strengths and weaknesses of on-the-job training.

Steam Ltd is a coffee shop chain that wants to improve the efficiency of its staff in all aspects of their work. This involves stocking and presentation in the store, making coffee, and customer service. The HR director sees training as critical to improving the efficiency of staff. She is particularly keen on **on-the-job training** in the coffee shop stores.

- Outline the difference between on-the-job and **off-the-job training**. [4]
- Explain **two** advantages of Steam using on-the-job training. [6]
Focus on the benefits of the staff in a coffee shop doing their training in the coffee shop where they will do their work.
- Explain **two** reasons why on-the-job training might not be effective for Steam. [6]
Think about the limitations of trying to train staff within the coffee shop, such as the implication for customers when they are being served by someone being trained.

Activity 8.4

This activity gets you to think about the impact that contract law and employment regulation have on organisations.

Jouer Et Apprendre, the French toy retailer, is suffering falling sales due to online competition and competition from supermarkets. It has decided to close 30 of its worst-performing stores to make it more competitive in the market. This is a difficult situation for Jouer Et Apprendre because of the contract of employment its workers have and laws on **redundancy**. The company is also struggling with the additional costs it has incurred due to an increase in minimum wage, along with additional health and safety regulations.

- Identify **four** details that might appear in a contract of employment. [4]



TIP
For 'identify' questions, write a list of specific terms.

- b** Outline **two** factors that Jouer Et Apprendre might take into account when deciding to retain a worker or make a worker redundant. [4]
Think about factors such as alternative work that the employee could do if they were kept on by the business.
- c** Explain how an increase in the minimum wage and additional health and safety regulations might have an impact on Jouer Et Apprendre's costs. [6]
Consider, for example, how a higher minimum wage might affect the wage cost of Jouer Et Apprendre.
- d** Consider why too much employment regulation might be bad for an employer such as Jouer Et Apprendre. Justify your answer. [6]
Start this answer by reasoning how employment regulation might be a problem for Jouer Et Apprendre by, for example, increasing bureaucracy. Then go on to discuss some of the benefits of regulation for business costs.

Activity 8.5

Far and Wide is a tourism business that specialises in holidays for people who enjoy outward-bound and outdoor leisure activities. It runs breaks that involve sailing, rock climbing and trekking. The company relies on specialist staff who have to be very well trained in running the holidays but also in selling the business. Training and recruitment are very important to Far and Wide and keeping their employees is also seen as crucial. The current economic recession is proving difficult because sales have fallen and the business may need to make redundancies.

- a** Define the term 'job description'. [2]
- b** Identify **four** stages in the recruitment process for employees. [4]
- c** Outline how Far and Wide might use off-the-job training with its employees. [4]
Give an example of off-the-job training such as training at a local college.
- d** Explain **two** benefits to Far and Wide of using off-the-job training. [6]
Remember to make the link between the type of off-the-job training and how Far and Wide might benefit, such as employees being able to train without the distraction of their work.
- e** Why might it be better for Far and Wide to retain employees in the current economic downturn? Justify your answer. [6]
Try to consider the benefits to Far and Wide of keeping its employees first of all and then think about the problems of retaining them, such as wage costs when revenues are falling.

Reflection: Consider what you have learnt about the recruitment, selection and training of employees. Are you more confident in applying your skills to questions about recruitment and training? What would you like to continue to work on?

9 Internal and external communication

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **effective communication** and why it is important to business
- different communication methods
- barriers to effective communication.



KEY TERMS

Effective communication: information passed between two or more people or groups, with feedback to confirm that the message has been received and understood.

Two-way communication: the receiver is allowed to respond to the message and the sender listens to the response.

Communication media: the methods used to communicate a message.

Feedback: the receiver's response to a message.

Activity 9.1

This activity aims to test your knowledge of internal and external communication.

Table 9.1 sets out the types of communication used by the tyre manufacturer A Tread Plc. Complete the table by identifying whether the method of communication is internal or external.

Example	Internal/external
An email is sent by senior managers to A Tread Plc's employees about new data protection rules.	
A Tread Plc does a telephone survey with potential customers.	
A Tread Plc's finance director has a face-to-face meeting with the bank.	
The CEO has a monthly online meeting with A Tread Plc's management.	
A Tread Plc holds a meeting with local residents who live near one of its factories.	
A monthly newsletter is posted on A Tread Plc's intranet platform for all its employees.	

Table 9.1

Activity 9.2

The activity gets you to think about effective communication.

JLK Ltd is a medium-sized advertising agency. The firm’s CEO, Anastasia, sees effective communication as key to the business’s success. She says: ‘We are a communication business so we have to communicate effectively with all our stakeholders.’ Anastasia sees face-to-face communication as critical within the organisation and strongly believes that employees should ‘go and see someone if they are in the same building’.

TIP
This ‘explain’ question wants you to set out the reasons why and how face-to-face communication might improve performance at JLK.

- a** Outline **two** characteristics of effective communication. [4]
Consider how information passes efficiently between two groups or individuals.
- b** Identify **four** types of **communication media**. [4]
You just need a list of precise terms here.
- c** Outline **two** benefits of effective communication. [4]
*Remember the importance of **feedback** in effective communication.*
- d** Explain **one** reason why face-to-face communication might improve the performance of JLK. [6]
Try to link a benefit of face-to-face communication, such as quick feedback, to improved performance at JLK.

Activity 9.3

This activity tests your knowledge of communication methods.

A business uses the following forms of communication:

- oral
- written
- electronic
- visual.

Table 9.2 sets out one benefit and one limitation of these forms of communication. Match each form of communication to its benefit and limitation.

Benefit	Limitation	Communication method
personal contact between sender and receiver	no permanent record	
provides a permanent record	feedback is slower	
can be sent to many receivers at the same time	can accessed by people who are not intended receivers	
creates interest and grabs attention	can be misinterpreted	

Table 9.2

Activity 9.4

In this business scenario, you need to think about the strengths and weaknesses of electronic communication.

Open Sky Plc runs international airports in Australia. The managers at the airport use a variety of different communication methods with their employees. Open Sky has developed an app that is used by all employees and this is updated continuously with information for workers. The managers also use email as a significant source of communication. There is, however, some concern amongst staff about the amount of electronic communication Open Sky uses.

- a Identify **four** types of electronic communication. [4]
- b Outline **two** factors that might account for Open Sky's choice of electronic communication as the best method of communication. [4]
Think about **two** strengths of electronic communication as they relate to Open Sky, such as the speed of transmission and response.
- c Explain **two** problems of Open Sky's use of electronic communication. [6]
Analyse **two** problems of electronic communication by making the link between, for example, the very high volume of emails a person might receive and how this might affect Open Sky's efficiency.

Activity 9.5

The aim of this activity is to make you look at the problems of and solutions to poor communication.

A local government office is having significant operational problems due to poor communication throughout the organisation. A review of the office's communication saw significant problems in terms of the channels used, a lack of trust between senders, poor **two-way communication** and overly long communication channels.

- a Define the term 'two-way communication'. [2]
- b Outline **two** reasons why long communication channels might lead to poor communication. [4]
Think about the possible nature of a long communication channel in a government office and the impact, for example, of having lots of people communicating in the channel.
- c Explain **two** negative consequences of poor communication at the local government office. [6]
Try to make the link between communication getting misinterpreted and how this, for example, could affect decision making in the government office.
- d Is the best way to improve communication at the local government office to insist on two-way communication and make sure that the communication channel is as short as possible? Justify your answer. [6]
Start by looking at the benefits of two-way and short-channel communication, such as good levels of feedback, and then evaluate these by looking at how they might affect the speed of decision making.

Activity 9.6

This activity helps you to practise answering questions on the different aspects of communication within organisations.

K&C Ltd is a small manufacturing company that wants to improve communication throughout the organisation. K&C is a family business based in Chad and it relies a great deal on traditional forms of communication such as letters and notice boards. The management are concerned about the lack of two-way communication and feedback. Because K&C is a relatively small business, managers are constantly talking to subordinates and using oral communication. The management of K&C think that they can improve communication by introducing an intranet system and an app.

- a Define the term 'feedback'. [2]
- b Outline **two** forms of written communication that the managers of K&C could use. [4]
Use an example, such as the minutes of a meeting, and say what would be included.
- c Explain **two** benefits to K&C of using effective communication. [6]
Try to analyse the link between effective communication and a benefit such as reduced risk of mistakes.



TIP

Make sure that you use the case study organisation as much as you can to illustrate your answer to the questions.

- d** Explain **two** problems for K&C of using oral communication. **[6]**
Think about an oral communication situation and link it to a problem such as lack of a record of the communication.
- e** Do you think that K&C is right to introduce an intranet and an app to improve communication? Justify your answer. **[6]**
Begin your answer by setting out how the intranet and app might improve communication at K&C and how K&C might benefit from this. Then go on to consider the weaknesses of this method of communication and come to a conclusion.

Reflection: Do you feel that your confidence is improving at distinguishing between different types of questions and the best way to write answers for them? If not, how can you help yourself to improve?

SAMPLE

Exam-style practice questions

ARB is a commercial bank that operates throughout a country. It employs 25 000 people in 980 branches. ARB is struggling with internal and external communication difficulties and needs to improve its communication systems. The organisation is looking to improve electronic communication both inside the organisation and outside. ARB also has motivation problems with its employees, who feel that their relationship with management is poor, partly because of poor communication. The other management change that ARB wants to make to improve motivation is to use a more democratic management style.

- a Define the term 'effective communication'. [2]
- b State how you would measure labour productivity. [2]
- c Outline **two** characteristics of democratic management. [4]
- d Explain how using **two** of Herzberg's 'motivators' might improve motivation at ARB. [6]
- e Why do you think that poor internal communication is ARB's biggest problem? Justify your answer. [6]

Total available marks: 20

Exam-style case study

Aspire Ltd

Aspire Ltd has been developing and marketing computer games for the last nine years. The Brazilian-based company has been successful and is now one of the leading computer games businesses in the country. The business has achieved a 20% market share and profits increased by 15% last year.

Much of Aspire's success is attributed to the way that it manages its people. It has a workforce of 55, many of whom are computer graduates and are highly skilled. Aspire's employees are well paid, earning salaries well above the industry average. The workforce feel recognised for their achievements at work and really enjoy the day-to-day tasks associated with designing computer games.

Throughout the organisation, there is a huge amount of respect for Aspire's CEO, Francesca. She is a democratic leader who believes in getting all employees involved in decision making through quality circles. Aspire is a flat organisation and managers have a wide span of control. Francesca believes that the best way to deal with highly skilled workers is to give them responsibility and to involve them in the future direction of the organisation.

Training is seen as very important at Aspire. The business believes very strongly in doing its own on-the-job training where new workers learn from existing workers, who are some of the most highly skilled people in the industry.

As an IT business, the main focus of communication is electronic. However, this is seen as a relative weakness of Aspire. Francesca wants to see more face-to-face meetings and less emailing when important decisions are being made.

- 1 a Explain **two** possible reasons why a well-trained labour force is important to Aspire.

Reason 1:

Explanation:

Reason 2:

Explanation:

[8]

- b Explain why the following **three** factors are benefits of on-the-job training:

- It is relatively low cost.
- Employees learn the way that Aspire wants.
- Employees are producing while training.

Which benefit is the **most** important? Justify your answer.

Low cost:

Learn the way that Aspire wants:

Producing while training:

Conclusion:

[12]

2 a Explain **two** benefits to Aspire Ltd of a highly motivated labour force.

Benefit 1:

Explanation:

Benefit 2:

Explanation:

[8]

b Explain how the following factors might motivate workers at Aspire:

- salary and wage
- recognition of achievement
- the quality of the work itself.

Which do you think is **most** important in motivating employees at Aspire? Justify your answer.

Salary and wage:

Recognition of achievement:

The quality of the work:

Conclusion:

[12]

3 a Explain **four** factors that influence the span of control at Aspire.

Factor 1:

Explanation:

Factor 2:

Explanation:

Factor 3:

Explanation:

Factor 4:

Explanation:

[8]

b Explain how the following **three** factors affect the leadership style of Aspire's CEO, Francesca:

- the nature of the workforce
- the personality of the manager
- the task to be completed.

Which do you think is the **most** important factor affecting Aspire's CEO? Justify your answer.

Nature of the workforce:

Personality of the manager:

Task to be completed:

Conclusion:

[12]

4 a Explain **four** benefits to Aspire of effective communication.

Benefit 1:

Explanation:

Benefit 2:

Explanation:

Benefit 3:

Explanation:

Benefit 4:

Explanation:

[8]

b Aspire wants to move away from electronic communication to oral communication. Explain an advantage and a disadvantage of each of these methods of communication. Which do you think is **most** effective? Justify your answer.

Electronic communication

Advantage:

Disadvantage

Oral communication

Advantage:

Disadvantage

Conclusion:

[12]

Total available marks: 80

Answering exam-style practice question d

Below is a sample answer to exam-style practice question d. The answer contains some common weaknesses. Read each part and consider how the answer could be improved.

The first motivator is improving the work itself and making the work enjoyable [K]. At ARB this could mean giving an employee lots of different banking tasks so that they don't get bored. If workers at the bank enjoy their work, they will be more motivated [App].

The second motivator is recognition. This means recognising a worker's achievements at work [K]. This could mean making sure that workers get a bonus if they perform well at work. This may mean acknowledgement of achieving targets set in a worker's appraisal [App].

Improve the answer...

Here are some ways to improve the above answer. Did you think about these?

This answer considers two relevant 'motivators' and they are reasonably well explained. The first motivator is the work itself; it needs to be interesting and varied. This answer could be improved by being more specific about how to make jobs more interesting, such as by giving the workers at ARB a variety of different tasks which constantly change. The next part of the answer is recognition at work and the 'bonus' example is a relevant one.

Answering exam-style case study question 1b

Below is a sample answer to the exam-style case study question 1b. The answer contains some common weaknesses. Read each part and consider how the answer could be improved.

Low cost: On-the-job training is low cost because outside trainers or college places don't have to be paid for by Aspire [K] [App].

Learn the way that Aspire wants: By doing its own training, Aspire will be able to teach its employees the skills it wants to, which is very important in a skills business such as computer game design. [An]

Producing while training: The employee who trains on-site will be able to work while they are training, which adds to Aspire's output, although workers training new employees may not be as productive [Ev].

Conclusion: The most important factor is probably employees being able to train the way that Aspire wants. Aspire is a leading business so its methods are successful and these can be passed on to new employees [Ev]. This may, however, add to the time and work of existing employees but developing the Aspire method is probably worth it [Ev].

Improve the answer...

Here are some ways to improve the above answer. Did you think about these?

This answer covers all three benefits correctly, but the benefits could be developed more fully in certain places. While the reduced cost of training in-house is recognised, there could be some mention of the cost of existing staff doing the in-house training in terms of lost output.

The point about Aspire training people the way that it wants is well made but this could be further discussed by considering the new ideas that may have been missed out on if employees had gone to an outside trainer.

The point about on-the-job training giving employees time to work as well as train is a valid one and this is evaluated by saying how workers being trained may not be as productive.

The conclusion is a good one because it focuses on the most important benefit of on-the-job training – that employees are trained the way that Aspire wants – and justifies this by focusing on the expertise of current Aspire employees to do the training effectively.