

## Unit 6 – Short Questions from Unit 6

### 1. Agri – Business

This term is used to describe the business of agriculture as well as other industries, which use agricultural output as a major raw material. Products produced by 'agri-business' include milk, sugar, beef and potatoes.

### 2. Three categories of industry include:

**Primary industries**- farming, fishing, forestry and mining

**Secondary industries** – construction and manufacturing (food processing & electronics)

**Tertiary industries** – services e.g. banking & tourism

### 3. Indigenous Firms

Indigenous firms are Irish owned; Irish entrepreneurs established them in Ireland. Many of these firms are small but the government for job creation encourages their development.

#### Benefits of Indigenous Firms:

- Will more likely remain in Ireland and protect local employment
- Inspires other entrepreneurs to take the risk and set up business
- They tend to be more labour intensive than foreign firms

### 4. Transnationals/multinationals

A transnational is a company, which has its controlling, headquarters in one country and subsidiaries in many other countries, e.g. Shell. Goods are produced by the subsidiary companies in different countries. These subsidiaries repatriate their profits to the parent plant. Irish TNC's: Smurfit Kappa Group PLC and Kerry Group PLC

#### Benefits of Transnationals:

- Provides employment to local areas, which results in increased tax revenue.
- Reduces imports as products are available locally, which improves the Balance of Payments.
- Increased competition results in high quality products at low prices

### 5. Community Development

This refers to efforts by local communities to solve their economic problems by encouraging entrepreneurship among local people. It is achieved through the activities of organisations, which provide finance, advice, and support to enable local projects to start up.

Examples include: Leader programmes, County Enterprise Boards (CEB's) and FAS

#### Benefits of Community Initiatives

- Creates jobs: new businesses will create jobs in the local area and develop the skills of the workers.
- Encourages entrepreneurship: more people will take the risk in setting up a business of their own
- Tax Revenue: there will be increased tax returns for the govt. this money can be used to improve public services.
- Empowers local community and generates a sense of pride within the community

## **6. Formation of a Private Limited Company:**

### **Memorandum of Association:**

This document sets out the relationship that exists between the company and the general public. Contents include:

- a) The Name of the Company followed by the letters Ltd or Teo.
- b) Objectives – the reasons for forming the company
- c) Limited liability Statement
- d) Share Capital statement – authorised/Issued share capital.
- e) Signatures of founding shareholders and directors

### **Articles of Association:**

This document lists the internal rules and regulations for the running of the company. It is not compulsory for a company to prepare its own articles of association because it can adopt the model articles of association (known as Table A), which is set out in the Companies Acts.

Contents include:

- a) Details of Share Capital
- b) Details of directors
- c) Details of meetings
- d) Detail of winding up the company
- e) Details on how profits should be distributed
- f) Signature of each shareholder – witnessed

## **7. Strategic Alliance**

A business alliance is where two or more firms jointly co-operate for mutual benefit, i.e. all parties increase profits as a result. Each part to the alliance retains its independence and identity but as a group the 'pool their resources' for mutual gain.

Examples include:

Ford & Mazda, One World Alliance & Kodak and Fuji

In 1999 Kodak and Fuji formed an alliance in order to share research and development costs for the production of a new camera film cartridge.

## **8. Franchising:**

This is an arrangement whereby the franchiser grants a licence in return for a fee allowing a person (franchisee) to trade using the same name, product or service e.g. Mc Donalds

It involves the renting of the complete business idea including the name and logo to someone else. The franchiser provides equipment, management advice and marketing advice to the franchisee.

### **Benefits of Franchising:**

- a) The franchiser can expand the business without any great investment or risk
- b) Offers instant brand recognition
- c) Unit costs can be reduced through bulk buying

## 9. Formation of a Co-operative

The Industrial and Provident Societies Act 1893 – 1978 govern the formation of a co-op. Guidelines include:

- (i) Have a minimum of seven members, who each buy at least one share.
- (ii) Must register with the Register of Friendly Societies
- (iii) Maximum shareholding exists
- (iv) Must file an annual financial report with the Registrar.

## 10. Limited Liability

<sup>W/S</sup> [This is protection for the shareholders in private and public<sup>LTP</sup> companies] If a company goes bankrupt, the shareholders only lose the amount of money they have personally invested. None of their private assets (home etc.) can be seized to pay the debts of the company. The existence of limited liability encourages people to become entrepreneurs and investors, as shareholders cannot be requested to pay more than the value of the shares registered in their name.

## 11. State Owned Enterprises – Semi State Bodies

These are state – owned companies, which are, involved in the provision of a wide range of goods and services to the public e.g. ESB & RTE. The Government provides the share capital and the subsidies. Directors who are appointed by the government manage them.

### Reasons for state Involvement

- Essential service
- Economic Infrastructure/development of natural resources

## 12. Privatisation

This is the sale of a government owned company to private investors. After privatisation the firm may become a Public Limited Company with a quotation on the stock exchange. The govt. receives the revenue from the sale of the state firm, e.g. In 1999 Telecom Eireann (eircom) was privatised and yielded the govt. 3 billion euros.

### Benefits Include:

- a) Raises money for the government
- b) Provides Irish people with the opportunity to invest in major companies
- c) The firm may become more efficient generating a high return

## 13. Reasons why TNC's locate in the Irish Economy: (incentives)

- a) Highly skilled and educated workforce.
- b) Low rate of corporation tax.
- c) State of the art telecommunications systems.
- d) Generous grants, training and development of workers and Research & Development are provided.

## 14. Public Limited Company PLC

Finance can be raised by issuing shares to the public. Shareholders have limited liability; this encourages them to buy shares in a PLC. Shares are quoted on the Stock Exchange & accounts must be published. There must be seven shareholders (no maximum)

### **15. Unlimited Liability**

Sole traders and partners operate their businesses with unlimited liability. This means that they are personally liable for the debts of their business. These operating with unlimited liability are regarded as the ultimate risk takers as they are also risking their private assets.

### **16. Private Limited Company**

The majority of businesses operate as a private limited company. Shareholders enjoy the benefit of limited liability. Shares cannot be issued to the public and are not quoted on the Stock Exchange. Business can commence on a receipt of a certificate of Incorporation.

### **17. Fiscal Policy**

This is the most important instrument used by the government in achieving its economic aims. It can be defined as any action by the govt., which affects the size or composition of govt. revenue (taxation) and expenditure. The minister for finance is responsible for implementing the govt. fiscal policy, which is pursued through the annual budget. *Outlines how a company gets its money and how it spends it*

### **18. Economies of Scale**

These are known as the cost advantages of large-scale operations. As a company grows in size their unit cost of production is decreased e.g. Purchasing Economies, large firms can buy raw materials in bulk thus benefiting from discounts.

### **19. Diseconomies of Scale**

These are known as the cost disadvantages of large-scale operations. As a company grows and expands their unit cost of production increases e.g. Managerial Diseconomies; as a result of a merger or a take – over communication can become more complex.

### **20. Illustrate the difference between a ‘Community Enterprise’ and a ‘State Enterprise’**

Community Enterprise: projects are undertaken for the benefit of the community and provided by community – based groups. The enterprise is set up to provide employment in their local areas and thus develop their local economy.

State Enterprises: the Irish govt. and its agencies own a large number of important business enterprises in the country. These enterprises are called semi – state bodies as the state has a direct interest in their operation e.g. An Post, Bord na Mona

**21. Define the 'secondary sector' and outline two current trends affecting this sector in Ireland.**

The secondary sector includes manufacturing, Agribusiness and Construction businesses that manufacture products produced by the primary sector (Agriculture, Forestry, fishing and Mining) they take raw materials and transform them into finished goods. E.g Kerry Group Plc

**Current Trends:**

- Decline in employment in Secondary Sector – downsizing and closures have resulted in an increase in unemployment, particularly in relation to Manufacturing and Construction
- Increased Competition – challenge faced by Agribusiness Sector in food market from foreign retailers Lidl & Aldi
- Increased wage rates in Ireland, has resulted in loss of competitiveness and relocation of some manufacturing businesses to low cost economies

**22. Define the 'Primary sector' and outline two current trends affecting this sector in Ireland.**

This sector of the economy contains the extractive industries.

These industries take raw materials from the land (Agriculture, mining or forestry) or the sea (fishing, oil and gas).

The industries within the primary sector prepare the resources for the consumer to use or for businesses to process further.

**Current Trends**

- Young people are attracted to better paid jobs outside of agriculture
- Forestry has become an attractive option for farmers with declining profits this has been boosted by state and EU grants
- The fishing industry in Ireland is a relatively small employer and is subject to the Common Fisheries Policy of the EU

**23. Define the 'Tertiary sector' and outline two current trends affecting this sector in Ireland.**

This consists of firms who provide services for other firms and for the public e.g. transport, banking and financial services, professional services, catering services, entertainment services.

More than 60% of the labour force works in this sector

The government provides services through government departments, the education and the health care systems. It is the fastest growing sector in the economy

**Current Trends**

- Ireland's population is currently at its highest since the famine, this has led to a huge increase in demand for services.
- In many families both parents are working outside the home, this has led to an increase in childcare services
- ICT services continue to be developed e.g. E-mail, text messaging and broadband

## 24. What is meant by Social Responsibility for businesses

**Social responsibility** refers to the obligation to respect the interests of all stakeholders.

A business, which acts responsibly, will be characterised as follows:

Packaging will be recyclable and/or biodegradable.

Advertising will promote environmental awareness and environmental issues.

Social projects will be encouraged to meet the needs of the local community.

Suppliers will not be exploited, especially those in the Third World. Certain media programmes have detailed the poor practice of Nike and Gap in relation to some of their sub-contractors.

Firms can show social responsibility to their stakeholders as follows:

**Employees:** Absence of discrimination, fair pay, promotion possibilities, good working conditions.

**Investors:** No waste, honest information, good accounting practices.

**Suppliers:** Payment on time, honouring of contracts, loyalty.

**Customers:** Truth in advertising, reliable products, after-sales service.

**Government:** Payment of all taxes, appropriate use of grant aid and compliance with the relevant legislation

**Society:** Striving to meet the needs of the community, no pollution and protection of local jobs.

## 25. What is meant by Business Ethics?

**Business ethics** refers to the moral rules that should guide people working in business. Many businesses establish a code of ethics. This is a document setting out guidelines for employees to follow when making decisions. Unless ethical behaviour is recognised and rewarded by top management, the code will not be treated seriously. Ethical behaviour is not always profitable in the short run and that is why governments must legislate to ensure good corporate behaviour.

## 26. What are social costs?

**Social costs** are costs borne by society as a result of the activity of a firm or individuals. The cost of cleaning public buildings in Dublin is borne by the state, not by the drivers who caused the pollution.

## 27. Functions of Community Development Organisations

### Leader Plus

- European Union Community Initiative for promoting rural development in Ireland.
- Developed in response to tough Common Agricultural Policy reforms (elimination of both subsidies and guaranteed (intervention) price for products)
- Its aim is to help rural groups develop their areas by implementing business plans designed by themselves
- Provides grant aid of up to 50 per cent for projects. To be aided, projects must be innovative, have the potential to create jobs and be able to employ local skills and avail of local resources
- Grant aid is available to for the following areas 1) rural tourism, 2) training and recruiting employees, 3) small firms, craft enterprises and local services 4) local exploitation and marketing of agricultural, forest and fishery products, 5) Technical Support for rural development. 6) Improving environment conditions

### **Country Enterprise Boards**

- Their aim is to help entrepreneurs start small businesses by providing funding and advice and to create jobs and improve the standard of living locally
- Provide financial support, advice and training for the development of micro-enterprises i.e. An enterprise with less than ten employees
- An evaluation committee looks at each project and decides the amount of financial assistance that is appropriate
- Provides a "mentor" for a new business. An experienced person who will advise the new enterprise in areas such as finance, marketing and planning
- Gives funds to local entrepreneurs towards:
  - the cost of preparing feasibility studies and business plans (up to 75 per cent)
  - the cost of capital and investment required (up to 50 per cent of €50,000 max)
  - a maximum grant of €5,000 for each new full time job created

### **FÁS (Forais Áiseanna Saothair) Community Enterprise Schemes**

Responsible for industrial training in Ireland and administers a wide range of training and employment programmes to provide a skilled workforce for enterprise

- Provides training for the unemployed
- Provides advice for new start-up businesses
- Provides grants to businesses, particularly when development will lead to new job creation
- Provides training for new managers
- Fás Enterprise Scheme: unemployed people are encouraged to set up their own small business and are paid a weekly wage while they are getting started
- Fás Training Programme: These programmes include youth training, apprenticeships training and training for the long term unemployed
- Community Enterprise Programmes: advice, training and financial aid is given to community - based groups who have a viable business plan that will provide local employment

### **Community Partnerships - Area partnership Companies**

- Board of directors of APC's is made up of social partners (representatives from trade unions, state agencies, local employers and farming bodies)
- Similar to Enterprise boards except they are specifically designed to tackle economic problems such as unemployment, in specified disadvantaged urban areas
- Each APC works on a local development plan for its own region.
- Provide financial support in the form of grants are available to support the development of business plans and business ideas
- Training is available with the support from FÁS.
- Similar to Enterprise Boards, a mentoring service is available.

## 28. What are Economic Variables?

### 1. Interest Rates

Interest rates refer to the cost of borrowing money. Within the Eurozone they are set for all member states and are controlled by the European Central Bank.

#### **If interest rates are low, they have the following effect on business**

- Entrepreneurs/Businesses are encouraged to borrow for investment and expansion purposes.
- Consumers are encouraged to borrow, this increases consumer spending. Saving is discouraged.
- Firms increase sales and become more profitable

#### **If interest rates are high, they have the following effect on business**

- Entrepreneurs/ Businesses tend to borrow less as it is more expensive
- Consumer spending will be reduced. Saving is encouraged
- Firms will become less profitable due to decreased sales and increased interest expense.

### 2. Inflation

Inflation is the sustained increase in the level of prices over a period of time. It is measured by the Central Statistics Office (CSO) using the Consumer Price Index. This compares the price of a fixed basket of goods from one year to the next to see what percentage increase or decrease has occurred.

Low Inflation will have the following effect on business

- Prices, costs and wages will be stable as a result business planning will be made easier.
- Low inflation will help businesses to remain competitive at home and abroad
- Low inflation boosts consumer spending, this will increase business profits

High Inflation will have the following effect on business

- It makes future planning for businesses more difficult
- Businesses will find it harder to compete in foreign markets
- Worker will seek wage increases in line with inflation which will increase production costs and reduce profits

### 3. Taxation

Taxation is a levy charged by the Government on individuals and companies to finance government expenditure

Taxation has the following effect on our economy

- Corporation Tax - low rates of corporation tax has encouraged multinationals to locate in Ireland. Corporation tax also reduces a company's profits which means there is less money available for shareholders and less money available to reinvest in the business
- VAT causes an increase in prices and can lead to higher inflation and a reduction in sales and profits for businesses.
- Employers PRSI is an added cost and may discourage firms from employing additional staff
- Capital Gains Tax discourages investment
- High personal taxes reduce employees disposable income, and act as a disincentive for employees to work overtime
- Low rates of tax stimulate enterprise and employment



#### **4. Exchange Rates**

An exchange rate is the price at which one currency is exchanged for another. Exchange rates are fixed within the Eurozone. Exchange rates affect foreign trade; we still import a lot of goods from non-Eurozone countries.

If the Euro is strong against another currency

- Exports will be more expensive and less competitive
- Imports will become cheaper, this will make it difficult for Irish enterprises to compete the home market
- The number of Irish people travelling abroad will increase

If the Euro is weak against another currency

- Exports will become cheaper
- Imports will become dearer
- The number of people travelling to Ireland will increase

#### **5. Unemployment**

Unemployment includes everyone on the live register, those people that are available but unable to find work.

High unemployment will have the following effect on an economy

- High unemployment will cause an increase in social welfare payments which are usually borne by the tax payer in the form of higher taxes
- It will lead to a reduction in demand for products because unemployed people have less spending power, leading to reduced sales and reduced profits
- Social problems increase as a result of high unemployment

#### **6. Grants and Subsidies**

A grant is a non-repayable source of finance received by a business from either the government or the EU to increase its competitiveness

Grants are given

- By the IDA to encourage multinationals to set up here
- They are given to Indigenous firms by Enterprise Ireland to assist with start up and development costs
- They are given to encourage companies to set up in certain areas e.g. Údarás na Gaeltachta give grants to businesses who set up in Gaeltacht areas.
- They are given by the EU for infrastructure developments

A subsidy is a payment of money by the government to a firm. It is a form of price support.

- The state pays a subsidy to CIE. This enables CIE to continue to provide services which it deems unprofitable but the state regards as socially desirable e.g. Bus services to remote areas
- An Bord Fáilte receives financial subsidies from the state to promote the Irish tourist industry.

