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Principles of Business

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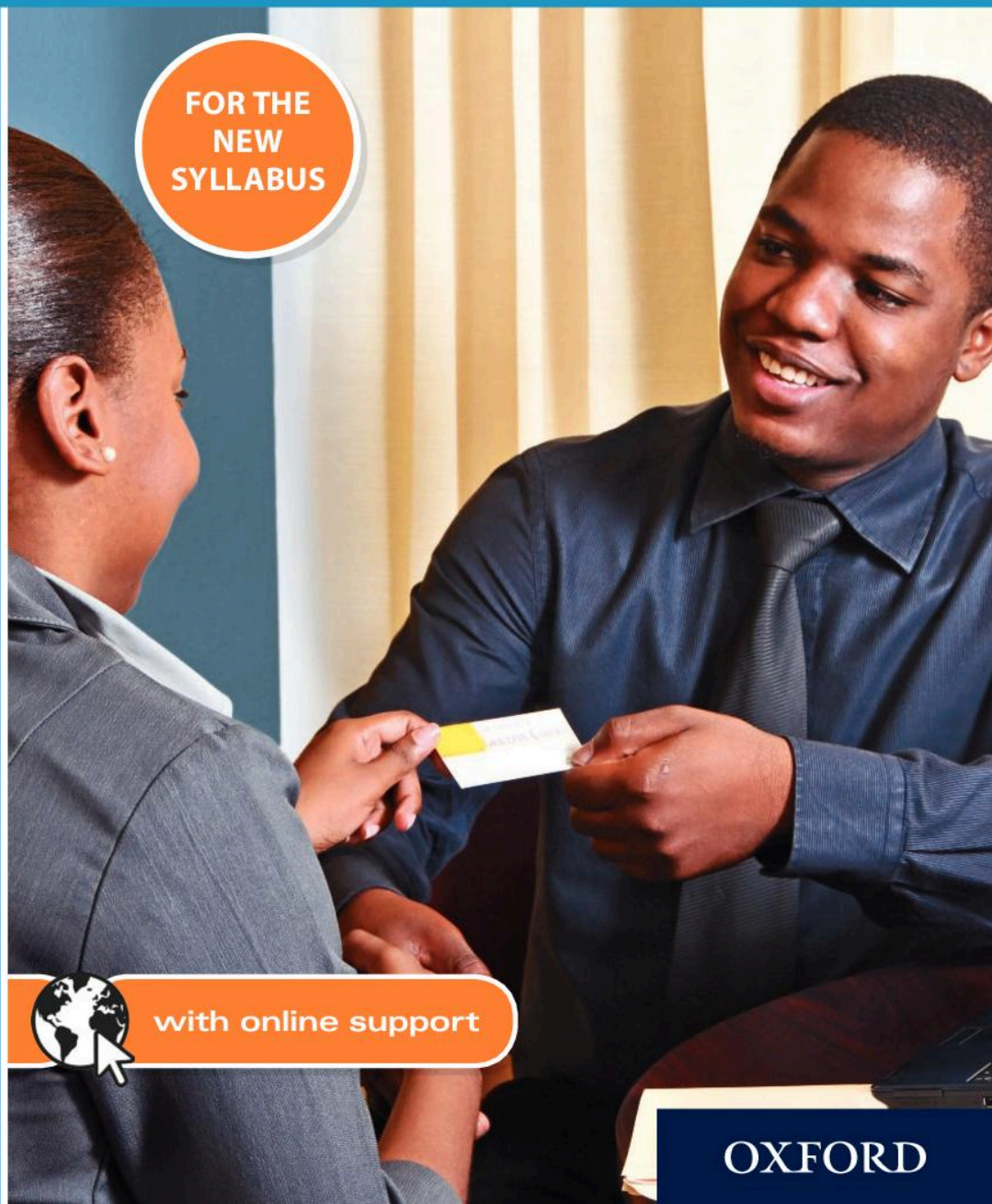

Robert Dransfield
Sandrea Butcher
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Great Clarendon Street, Oxford, OX2 6DP, United Kingdom

Oxford University Press is a department of the University of Oxford. It furthers the University's objective of excellence in research, scholarship, and education by publishing worldwide. Oxford is a registered trade mark of Oxford University Press in the UK and in certain other countries

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First published in 2019

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British Library Cataloguing in Publication Data

Data available

978-0-19-843735-2

10 9 8 7 6 5 4 3 2 1

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Printed in India by Multivista Global Pvt. Ltd

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Introduction

Business activities play a very important part in all of our lives. Many of us take for granted the food and clothes we buy, and the schools and hospitals we rely on, without thinking about the resources and organisation that have been put into providing these important goods and services. Understanding how businesses and other organisations operate, the key ideas that lie behind starting and controlling a business, and the role of government in both encouraging and limiting business activity – this is what studying Principles of Business sets out to achieve.

Principles of Business is designed to help you through the CSEC syllabus, covering each of the objectives in turn. The book provides you with lots of up-to-date contextual information, focusing on what is happening in the business world in the Caribbean at the time of writing. Everyone who lives in the Caribbean interacts with businesses every day, whether it's the bus company taking you to school, the corner store selling you an ice pop, or the website trying to entice you to buy clothes. This course will help you to find answers to questions such as: What is a business? Who owns them? What do they set out to achieve? How do businesses help governments with nation building? How do businesses survive and prosper?

Key features

Business in action: these questions involve some form of investigation into how businesses work in the real world, for example by carrying out research in your local area or online.

Exam-style questions: multiple-choice and exam-style questions conclude each chapter. They give you an opportunity to test your understanding of the subject material, your powers of application and your skills of analysis. Each question includes a mark allocation for guidance. Answers are provided in the online support materials.

At the back of the book, the **School-Based Assessment** section provides guidance and advice on how to prepare a really good SBA. The guidance shows you how to set about planning and organising a research topic. An example is provided to indicate the steps involved in preparing a research topic.

The Caribbean is a centre of enterprise and innovation, where many young people take up careers in business and large numbers set up their own enterprises. Hopefully this book will help to launch you into that world of business in a way that gives you confidence and inspiration.

Robert Dransfield

Tip

These tips give revision hints about what you should be learning and what you should know for your exams.

Setting the scene

Each chapter begins with a "Setting the scene" case study based on Caribbean examples, to introduce the key principles and ideas that the chapter will be covering.

Objectives

Each chapter follows the list of objectives for the syllabus, mapping out what you need to learn in order to understand business principles and to succeed in your exams.

Key term

Key terms are highlighted throughout the book, and accompanied by clear explanations of these important terms that you need to know.

Now try these

These questions appear regularly throughout each chapter. They allow you to check your understanding and progress by testing many of the important points that have just been explained. Answers are set out in the online support materials.

1 The nature of business

Setting the scene

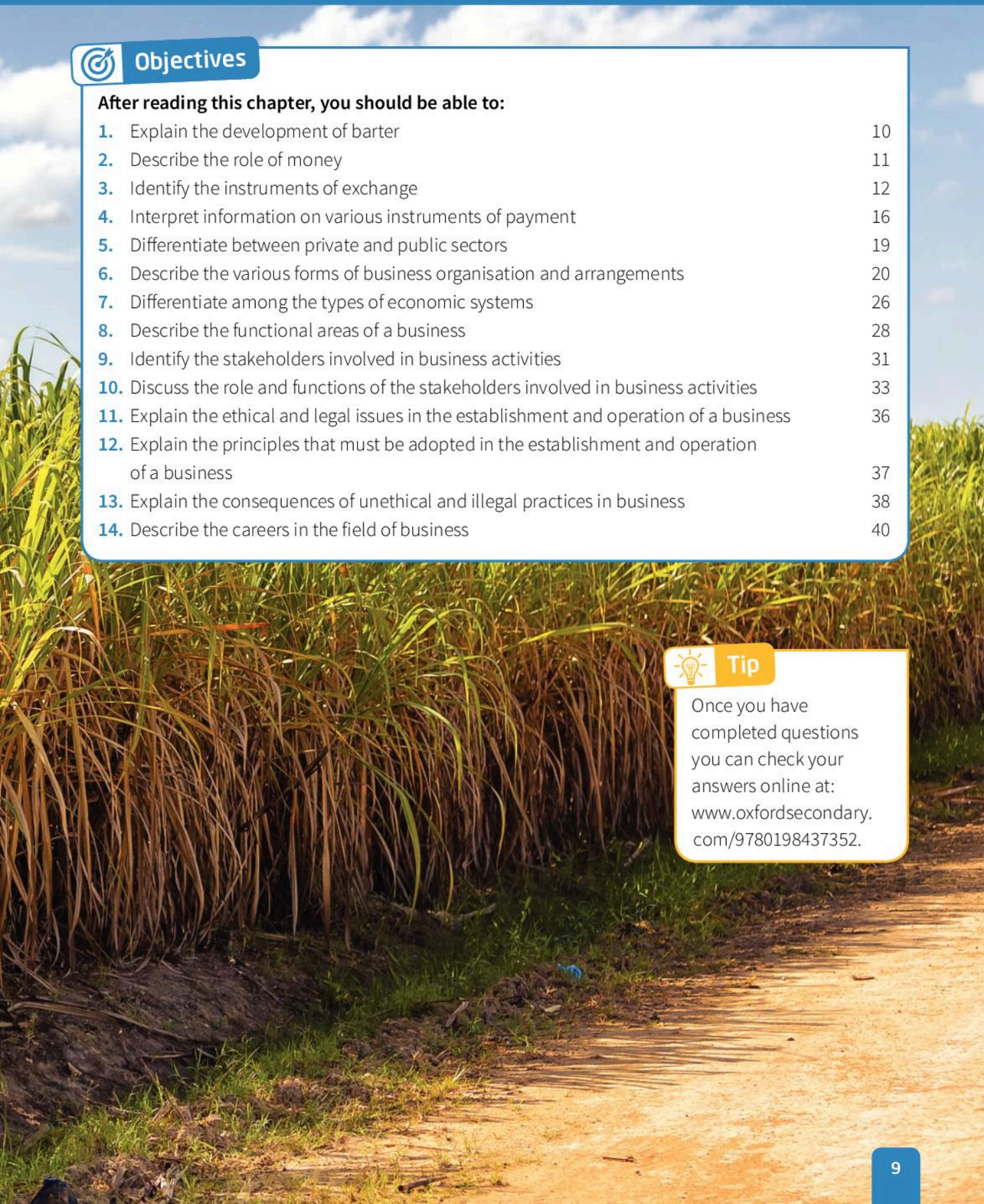
GuySuCo – a business that contributes to nation building

Large and small businesses make a major contribution to the life of any country, providing important products as well as employment for people. They also contribute to the earning of foreign currency when goods are exported to other parts of the world.

Guyana Sugar Corporation Inc. (GuySuCo) is one of the most important businesses in Guyana, although in recent years it has faced increasing competition from huge sugar-growing producers across the globe (such as India, Brazil, China and Thailand). GuySuCo generates about 2–3 per cent of Guyana's annual revenue and is a key part of the agricultural sector. It is famous for brown sugar produced in the Demerara River basin. On 26 May 1976, the government of Guyana nationalised and combined the large sugar estates owned by private businesses.

The Guyanese government is a major stakeholder in GuySuCo because the corporation is such an important provider of jobs, government revenues and a basic staple agricultural product. A stakeholder is someone who has an interest in how a business is run. Other groups with an interest in the success of GuySuCo include its workers as well as other businesses that benefit from contracts with the company, such as those using agricultural machinery. Most recently, GuySuCo is working towards diversification through value added products such as the production of white sugar (plantation white) and co-generation. Heritage tourism (sugar/plantation) is also being explored.

1. Why is GuySuCo considered to be a business?
2. Why does the government of Guyana have a stake in the success of GuySuCo?
3. Who are the other stakeholders with an interest in the success of GuySuCo? Identify their specific interests.
4. What large businesses do you know that make a major contribution to the life of your country? To what extent do you have a stake in the success of one or more of these businesses?



Objectives

After reading this chapter, you should be able to:

1. Explain the development of barter 10
2. Describe the role of money 11
3. Identify the instruments of exchange 12
4. Interpret information on various instruments of payment 16
5. Differentiate between private and public sectors 19
6. Describe the various forms of business organisation and arrangements 20
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12. Explain the principles that must be adopted in the establishment and operation of a business 37
13. Explain the consequences of unethical and illegal practices in business 38
14. Describe the careers in the field of business 40

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

Key term

Business activity: the activity of producing and selling goods/services to consumers.

Barter: the exchange of goods and services for other goods without the use of money.

Double coincidence of wants: two people who want what each other has to offer.

Now try these

1. Identify situations where you have engaged in 'barter' with friends. What were the key factors that made an exchange possible and desirable?
2. Identify a situation where you refused to make a swap with someone. Why did you turn down their offer? What does this say about barter?
3. **Business in action**: Find a picture of a cowrie shell online. What are the distinctive features that you think helped to make the shell a means of exchange?

1.1

Explain the development of barter

Business activity only became possible when a means of exchanging goods and services was developed. As we shall see in the units below, it was the development of money that enabled the development of a trading economy, and therefore the development of business activity. **Business activity** is concerned principally with producing and selling goods and services to consumers (people who make use of these goods and services).

In order to understand how business has developed, it is first necessary to explain the development of money, and how trade took place prior to the development of money.

Barter

Before money, people would **barter**, i.e. they would exchange goods and/or services for other goods and/or services without the use of money (such as a goat for several chickens). This requires two people who want what each other has to offer (a **double coincidence of wants**). An advantage of bartering is that money is not needed; so long as you have what someone else wants, you can barter. It also allows for variety because anything can be bartered so long as it is desired by someone else. You could barter a holiday home for an urban flat, or a car for an expensive watch, etc. The obvious disadvantage is that one person may not have enough goods to make the exchange fair, or they may not want a whole goat for example.

Over time, people realised that small but valuable items, such as cowrie shells, beads, stones and animal teeth, could be used instead of simply exchanging goods. Bartering does actually still happen to this day, particularly on websites that allow people to swap goods or services.

Advantages of bartering	Disadvantages of bartering
Facilitates trade without money	Is not possible if there is no double coincidence of wants
Enables the disposal of surplus production	There is often a lack of an equitable exchange rate
Increases the availability of goods	There are often difficulties in dividing goods fairly
Lays the foundation for the organised method of trading we enjoy nowadays	It does not allow for wealth to be stored over time

1.2

Describe the role of money

A subsistence economy is one in which people simply produce enough to survive on an individual, family or group basis. The group may grow crops and raise livestock, as well as hunt, gather fruit and berries, and catch fish. There is little need for exchanging with other groups, so the requirement for money does not arise.

Subsistence economies were used in early societies before **money** was invented. However, as soon as these early societies started to look outwards to obtain food and possessions that they didn't produce themselves, they needed to trade. Barter is helpful for trading, but it only goes so far, because in order to barter you need to have something that others want.

Over time, monetary systems developed to combat many of the problems associated with bartering. Market or money economies developed as a way of making purchases from others, using money. We saw in the previous unit that objects such as cowrie shells became one of the earliest forms of money. These shells came to take on the role of money due to their **characteristics**. Understanding these characteristics helps us to understand how something (in this case the shells) becomes acceptable as money.

Cowrie shells had the following characteristics:

- Scarcity: shells were valuable because they were relatively scarce.
- Acceptability: people were prepared to accept shells as payment because they knew that they could use them for future trading.
- Portability: the shells could be carried easily for long distances.
- Durability: the shells were hard-wearing and long-lasting.
- Divisibility: shells could be supplied in various quantities, to buy purchases of different sizes. In modern terms, a car can be priced at thousands or millions of dollars. Dollars can be divided into cents for small items such as a packet of chewing gum or a piece of fruit. Shells could be divided in a similar way.

The functions of money

The **functions of money** are as follows:

- As a medium of exchange: money is generally accepted as a means of payment for most goods.
- As a unit of account: the price of an item can be measured in terms of how many units of currency it is worth. For example, while a low-quality sweater may cost $10, a high-quality one may be valued at $100 or more.

Key term

Money: anything that serves as a generally acceptable means of exchange. Includes physical objects, e.g. cowrie shells and paper money, as well as cards and electronic forms of payment.

Characteristics of money: features of a form of money, such as whether it is easy to carry around (portability).

Functions of money: the things that money does and the purposes it serves, for example as a means of making an exchange.

Cowrie shells were an early form of money

Tip

Make sure that you can distinguish between the *characteristics* of money (for example, that it can be divided into units) and the *functions* of money (what money actually does, for example it serves as a means of exchange).

- As a store of value: you can save money because it keeps its value. Saving enables use of the money in the future.
- As a standard for deferred payments: borrowers are able to borrow money and pay it back at a later date.

To put these functions into context, the Bahamian dollar can be used to make payments throughout the Bahamas, and is therefore a medium of exchange. The Bahamian dollar therefore serves as a unit of account, measuring the price of goods and services that can be bought and sold. People in the Bahamas are able to save their money in Bahamian banks, knowing that the Bahamian dollar serves its function as a store of value. In addition, the Bahamian dollar can be used as a means of borrowing money. It acts as a reliable store of value, and also serves as a standard for deferred payments.

Now try these

1. Why might a business that sells goods on credit use money as a standard for deferred payments?
2. Why is money so effective as a unit of account in business?
3. **Business in action**: The currency of your country should act as an effective store of value. If prices are rising, then money will lose its value. Study one of your national newspapers to find stories about price changes in recent times. What do these stories tell you about how effective your national currency is at serving as a store of value?

1.3

Identify the instruments of exchange

An instrument of exchange is anything that enables a transaction to take place. It allows money (or goods) to move from the buyer to the seller. For example, a shopkeeper may buy supplies from a manufacturer (maker of goods) using cash, a bank card, credit (with an agreement to pay later), or one of the means outlined below.

Instrument of exchange	Description
Barter	As described earlier (page 10), this involves trading items. For example, swapping stickers for album cards. Advantages: Easy to use, any item can be traded. Disadvantages: Relies on double coincidence of wants, and some items cannot be divided.
Bill of exchange	An unconditional order from one person/organisation (the **drawer**) to another (the **drawee**) agreeing to make a payment in the future. The payment will be paid on presentation of the bill for payment (a sight bill), or at a given date in the future (a term bill, usually in one, two or three months).

	Bills of exchange are used frequently in international trade where an importer will need time to sell goods before paying for them. Bills of exchange are therefore an excellent way of aiding trade to take place because payment is guaranteed at a stated time. Advantages: Payment is guaranteed on a specific date. Disadvantages: Often does not give instant funds.
Electronic transfer	Any transfer of funds or payment that is made electronically, for example: • transferring funds from one bank account to another account • paying for goods using a credit card (see below) • a business paying wages each month to its employees directly to their accounts through electronic funds transfer • paying for goods online through the payment pages of a website. Advantages: Electronic transfer has become increasingly popular because it can be done safely (in the main), quickly, without the need for detailed paper records, and large numbers of transactions can be carried out simultaneously. Disadvantages: Online fraud is becoming increasingly common as criminals steal the personal banking details of others. It can also be easy to make mistakes when entering details online, and electronic systems sometimes crash, leading to widescale frustration.
Tele-banking and e-commerce	**Tele-banking** refers to making banking transactions using a computer network, and **e-commerce** refers to trading goods using online communications. Sometimes 'tele-banking' is used to describe making banking transactions over the phone, but it is now used more widely to describe online banking. Currently bank customers can still transfer money over the phone; however, the majority of these transactions are now carried out online. Additionally, most products or services are bought and sold via e-commerce using websites that either specialise in a narrow range of products, for example books and music, or a wider range of goods, such as an online supermarket. Advantages: Easy to use from anywhere with a phone or Internet access. Disadvantages: Security can sometimes be an issue.
Cheque	A printed form (printed by a bank and sent to customers in a cheque book). The person wanting to make a payment (the drawer) fills out the cheque to instruct their bank to pay a set sum to a specific **payee**/person/business. Advantages: Cheques are guaranteed as a means of payment, they can be made out for any sum (depending on the funds in the drawee's account), and are safe because cash (notes and coins) does not have to be carried around or stored. Disadvantages: Cheques are becoming less widespread today as they are being replaced by online payment systems.

Key term

Drawer: a person making out a bill of exchange, such as a cheque ordering the payment of funds.

Drawee: usually the bank responsible for following the drawer's instruction to transfer funds to the payee.

Tele-banking: making banking transactions using a computer network.

E-commerce: buying and selling goods electronically via the Internet.

Payee: a person entitled to payment by the drawee as a result of instructions made by the drawer.

Money order	A money order can be paid for at a bank, post office or telegraph office. The establishment then sends it to the payee. The payee can then present the money order for payment at any branch of the post office, bank or telegraph office. International money orders are used for international money payments. This form of payment is also becoming less common, and is only really used when the person making the payment does not have a bank account or is wary of other forms of payment. Advantages: Enables the transfer of money by those who do not have bank accounts. Good for transfer of funds overseas. Disadvantages: A slow process when compared with electronic means of transferring funds.
Debit card	This is a means of payment where the details of the card are 'read' by a card machine, and funds are transferred directly and immediately from the user's account to the person/account they are paying. The amount that can be spent on the debit card depends on how much the user has in their account and any agreed overdraft (amount that the bank has agreed they can overspend/borrow). Debit cards are sometimes referred to as check cards or simply 'plastic cards'. Advantages: Ease of use for making payments, and the transaction is recorded electronically. Debit cards also enable users to withdraw cash from an **automated teller machine (ATM)**. Disadvantages: Money comes out almost instantly, so if the money is not in the account, it will become overdrawn and liable for fines.
Coins and bank notes (paper money)	Round metal or paper items that are used as legal tender. They are usually issued by a government, and have a standard size or weight based on their denomination. Advantages: Easy to use, and widely used. Disadvantages: Forgery is common, and governments have to constantly find ways to prevent fake coins and notes from circulating.
Credit card	A card used to make payments on credit – the user is effectively borrowing money (from a finance house which is usually owned by a bank) to make a payment. Users therefore buy goods and pay for them later. Every month, users receive a statement showing how much they owe. If they pay by a given date, they will not have to pay interest. However, if they do not pay the bill in full, they are charged a rate of interest. Many businesses use credit cards to finance short-term cash flow needs. Advantages: Users can borrow money before they actually have the money themselves. Disadvantages: Users can end up paying high rates of interest if they do not pay charges in full.
Bank draft	A cheque made out by a bank on behalf of a customer, to allow the customer to make a substantial payment, for example when buying a house or a car. Advantages: As it is the bank making out the draft, the person receiving it as payment (the seller) feels reassured that the payment will be made. Bank drafts therefore act as a means of payment for expensive items, often where the seller does not personally know the credit status of the buyer. Disadvantages: Drafts could be lost or stolen. They can also be expensive to set up if used frequently.

Key term

Automated teller machine (ATM): a machine that dispenses cash. Users put their bank card or credit card into a slot, input a personal identification number (PIN), select a given sum and wait to receive notes. ATMs can also be used to withdraw and deposit funds, transfer money and view account balances.

Telegraphic money transfer	This is a fast way of transferring money, usually from an account in one country to an account in another country (sometimes referred to as a wire transfer). To set up a telegraphic money transfer, the bank/financial body requires the following details (assuming they already have the account details of the person making the payment): • name of the account to be paid into • bank account number of the recipient • bank code number of the recipient's bank • address of the recipient • the amount to be paid. Advantages: A safe way to transfer money, and a customer would normally go into their bank or post office to make this payment. Disadvantages: Transfers are sometimes used for transferring money illegally (money laundering).
Treasury bill	These are bond investments from the government. A customer pays in a certain amount of money and, after a set time, receives their money back, plus a percentage of interest. Advantages: As the investments are backed by the treasury, there is less chance of their value falling. Disadvantages: Investments could still lose value, in which case the customer receives less money than they put in.
Bank transfer	A way to send funds from one bank account to another anywhere in the world. This is similar to a telegraphic money order (see above). All that is required is the details of the two accounts, for example names, account numbers, bank details (address), etc. Advantages: Enables fast movement of money in a safe way, and gives the receiver access to the payment quickly. Disadvantages: There can be hidden charges, especially when sending money to international accounts.
M-money, mobile money and mobile wallets	These refer to the use of cellphones to make payments or to transfer money electronically. They are growing in popularity because most people carry their own phones, and rather than pay in cash they can use apps to transfer funds quickly. The term 'mobile wallet' refers to the system of using a cellphone as a way of making a payment. The payer texts a message to their provider using a code, which is then validated, enabling the user to make a payment directly from their cellphone. Advantages: Easy to use anywhere with a phone or Internet access. Disadvantages: Hacking and scamming can sometimes be an issue.

Tip

There are **three** main types of payment instrument for making credit transfers (paying money into your account) and debit transfers (making a payment from your account). These are:

1. paper based (cheque, bill of exchange and cash)
2. card based (credit and debit cards)
3. electronic based (mobile wallet or electronic funds transfer).

There are **five** main channels for delivering money and payments through the banking system. These are:

1. bank teller (person working in a bank)
2. ATM (cash machine)
3. electronic debit card
4. computer
5. cellphone.

Now try these

1. Which of these instruments of exchange do you use most frequently, and why?
2. Identify a situation where a business might:
   (a) Make a payment by cheque
   (b) Make a payment by credit card
   (c) Make a payment using a bank draft
3. **Business in action**: Access the website of a well-known bank in your country. Find the part of the site that deals with personal banking. Identify examples of methods of payment that are highlighted.

1.4

Interpret information on various instruments of payment

This unit outlines what some of the instruments of payment look like in practice, and what information is displayed on them.

Bill of exchange

Let us suppose that Caribbean Cotton Supplies sends $30 000-worth of cotton to London Importers, to be paid for two months later.

Caribbean Cotton Supplies will make out a bill of exchange for this sum, and a copy will then be sent to London Importers. Caribbean Cotton will send another copy of the bill to its bank in Jamaica, and on the due date this sum will be paid to the Jamaican bank by London Importers' bank in London. The Jamaican bank will then credit the account of Caribbean Cotton with the set amount.

The bill of exchange will look like the following:

BILL OF EXCHANGE

Issued at Kingston 31 January 2019 Amount $ 30 000

To the order of Caribbean Cotton (payment to our account to be paid two months after the issue of this bill of exchange)
The sum of US$30 000
For value received in the form of cotton

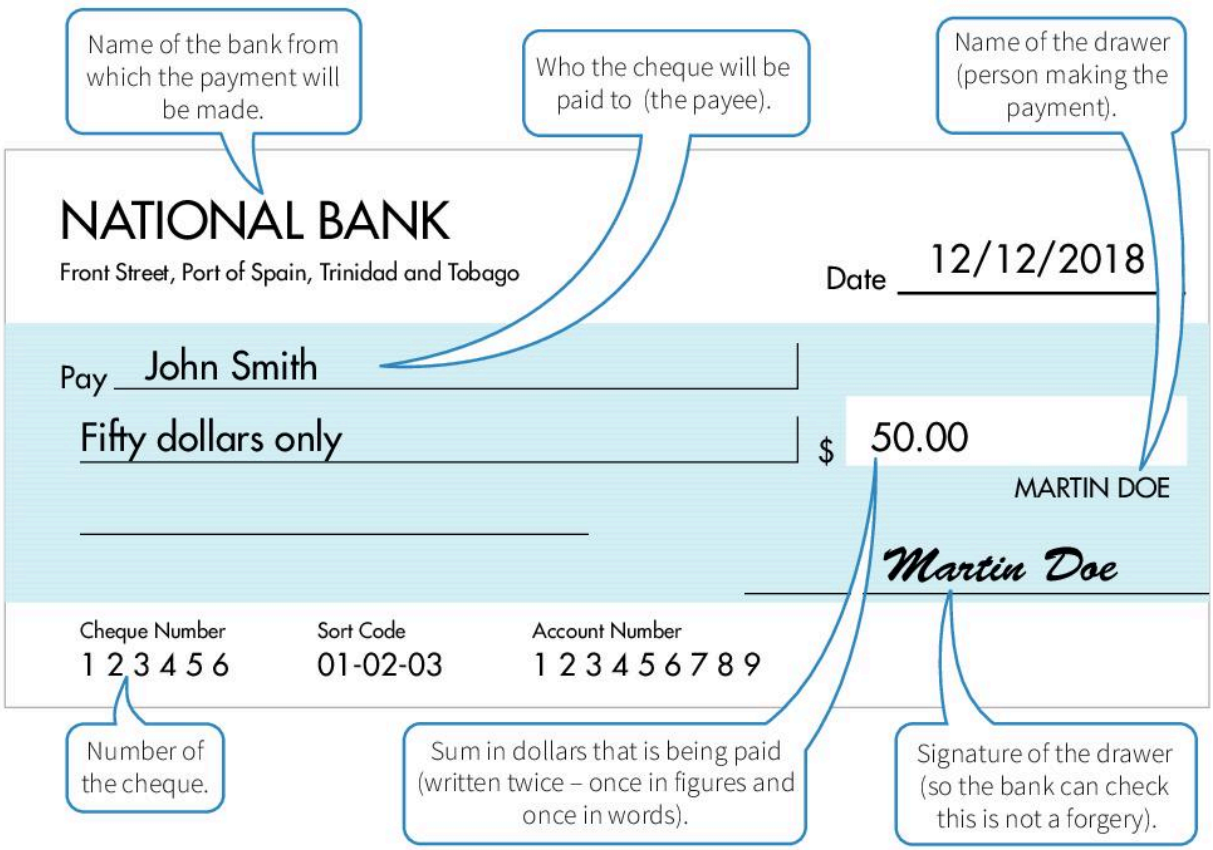
Instruction to pay:
To: London bank, Central London Offices on behalf of London Importers
Payment to be made to Jamaican bank, Kingston, Jamaica on 31 March

Bill accepted by: Sunil Gupta
(Import Director, London Importers)

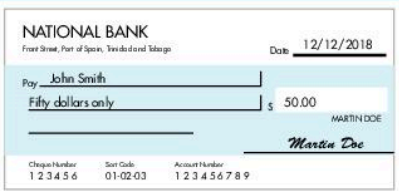
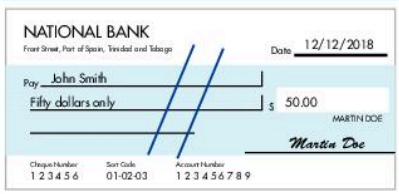
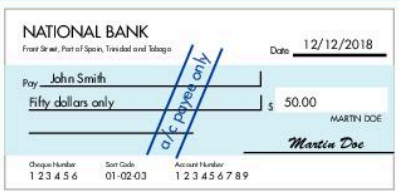
Bill created by: Seymour Jennings
(Export Director, Caribbean Cotton)

Cheque

Let us suppose someone is writing a cheque to give to a friend.
The cheque will look like the following:



There are three main types of cheques:

		
An **open cheque**: there is no crossing on the cheque, and the recipient (who may not be the payee) simply needs to present the cheque for payment at their bank.	A **crossed cheque**: two vertical lines are drawn on the cheque. This cheque cannot be exchanged for cash, and instead must be deposited into an account.	An **a/c payee only cheque**: the cheque can only be paid into the bank account of the person identified as the payee on the cheque. This involves setting out two vertical lines on the cheque with the words 'a/c payee only' written between them. This is the safest way of making a cheque payment and provides some protection if the cheque is stolen or mislaid.

Now try these

1. Look at an actual debit card and identify the features and key pieces of information contained on the card.
2. Cosmetics International Limited make a crossed cheque payable to its supplier Better Ingredients PLC. Why might it have used a crossed cheque rather than an open cheque?
3. What are the most important details that a company receiving a bill of exchange would look for on the bill to check that it meets the company's expectations for payment?
4. **Business in action**: Visit a local post office and enquire about sending a money order. What are the steps required to make out such an order? Are money orders for set denominations or can you make them out for any amount?

Money order

Let us suppose you want to send some money by money order to James Brown. The money order will look like the following:

CARIBBEAN UNION POST

MONEY ORDER

Serial Number	Year, Month, Day	Post Office	U.S. Dollars and Cents
19377013919	2012-09-04	282700	$980.00

Pay to the order of: James Brown

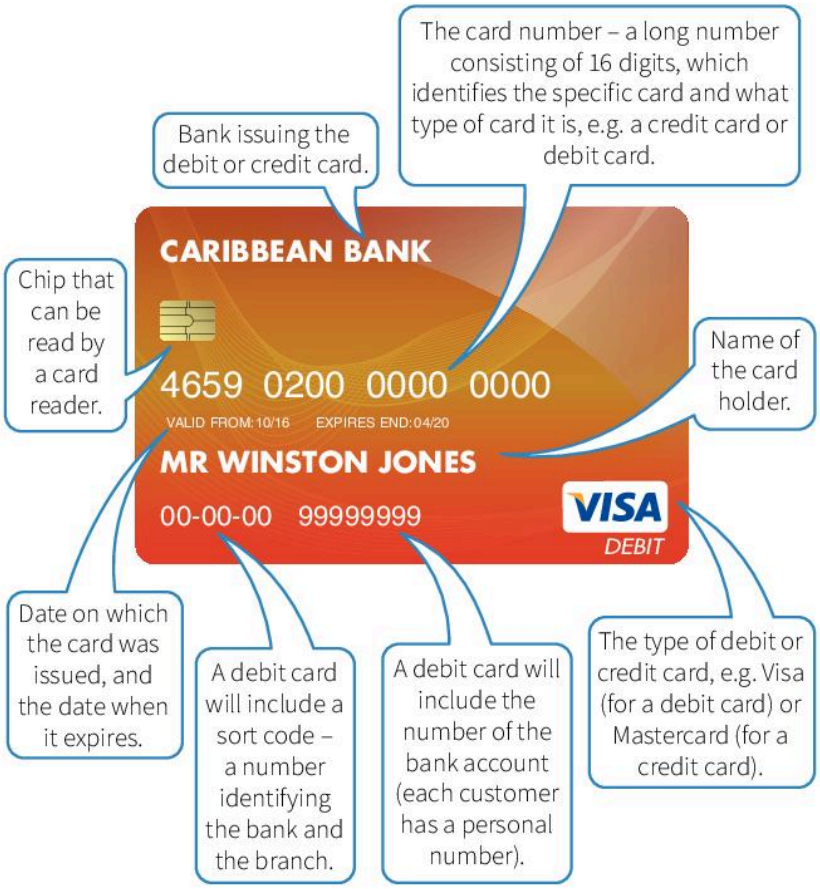
Amount to be paid: NINE HUNDRED AND EIGHTY DOLLARS

Signed: *Official of Caribbean Union*

:000008002: 19377013919:

Debit and credit cards

Debit and credit cards look like the following:



1.5

Differentiate between private and public sectors

There are two main sectors of the **economy**: private and public.

The private sector

The private sector consists of small-, medium- and large-scale businesses. The owners of these businesses are individuals who have set up on their own (sole traders), those who have formed partnerships, and shareholders who are the owners of companies.

Individuals set up private businesses principally to earn a profit, and for the pleasure of running a business and being their own boss. They might also have wider social concerns, such as to provide essential services like hearing aids or incomes for those in need of a job.

Private sector businesses seek to anticipate customer requirements, and respond to signals provided by the market in the form of demand and prices.

Tip

You should know that public corporations are government owned and are in the public sector. In contrast, public companies are in the private sector and are owned by private shareholders.

The public sector

The public sector consists of enterprises owned and run by the government. In many countries, the government owns and runs key utilities such as rail and bus companies; oil, gas and electricity industries; the central bank; and water companies such as National Water Commission in Jamaica. Government departments directly run by government officials, such as the tax department, are also part of the public sector.

Motives for operating in the public sector	Motives for operating in the private sector
Provision of goods and services	To earn profit
Cater to the entire population	Cater to a target market or niche market
Provide public and merit goods, e.g. education, national defence, etc.	Provide consumer goods, etc.
Limited or no competition	Strong competition among firms

Key term

Economy: a system in which production (making goods), distribution (moving goods around the system) and consumption (use of goods) takes place.

Customs and excise authorities working for the Barbados Revenue Authority are government officers paid by the government and are therefore part of the public sector, so their wages are part of public spending

Tip

Make sure you can identify services offered by the public sector, such as healthcare, education and national defence, as well as those offered by the private sector, such as banking and insurance, etc.

Now try these

1. Put forward arguments for placing the water supply industry:
   (a) in the public sector
   (b) in the private sector
2. Why do you think the fashion industry is less likely to be in the public sector than electricity supply?
3. **Business in action**: Create a poster showing six industries in your country that are in the private sector, and at least two in the public sector. Identify two businesses that have been privatised or nationalised in the last ten years.

Privatisation and nationalisation

The public sector (government-owned enterprises)	**The private sector** (enterprises owned by individuals, e.g. shareholders)
Examples include public corporations and government-owned companies	Examples include sole traders, partnerships, companies, franchises and co-operatives

Privatisation
Movement from the public sector to the private sector

Nationalisation
Movement from the private sector to the public sector

When a business moves from being run by the government to being publicly owned, this is called privatisation. Movement from the private sector to the public sector is described as nationalisation.

In recent years, there has been a trend for more businesses to become privatised – to move from the public sector to the private sector in the belief that the private sector encourages more competition, which leads to better use of resources.

1.6

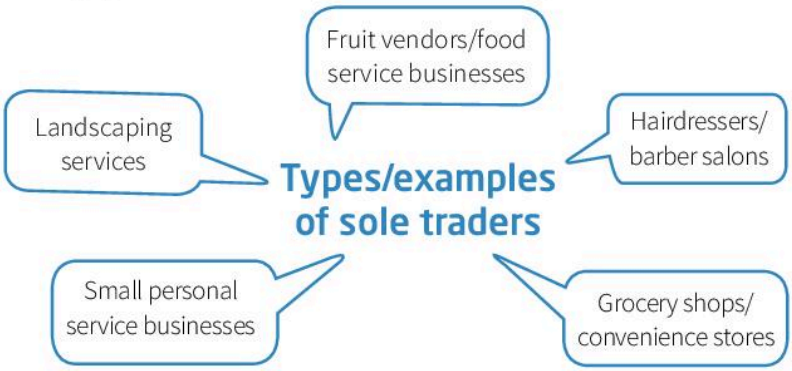
Describe the various forms of business organisation and arrangements (formation, management and characteristics)

There are many different forms of business organisations, all of which have varying types of formation, management and characteristics. The main forms of business are outlined below.

Sole trader

A sole-trader enterprise is the most common form of business, and is the easiest to set up. It comprises one person running a business (although he or she may still employ a large number of people).

The table below shows some of the advantages and disadvantages of setting up as a sole trader rather than as a larger business.



Advantages	Disadvantages
Easy to set up; little paperwork required	Having unlimited liability (see below) endangers personal possessions
Usually a small business, so less capital is required	Finance can be difficult to raise
Speedy decisions can be made by the owner, as fewer people are involved	The small scale limits discounts and other benefits of large-scale production
Personal attention given to business affairs	Prices are often higher than those of larger organisations
Special services can be offered to customers	Ill health and holidays etc. may affect the running of the business
Can cater for the needs of local people, with whom the owner is more likely to come into contact	Only one owner may mean a narrower range of skills
Profits do not have to be shared	Mistakes are possible if there are no colleagues to consult for advice
Business affairs can be kept private	

Unlimited liability

When you set up a business, you will need capital to run it. Sole traders have only their own resources to draw on. They will finance their business through savings, and borrow from banks and on credit cards.

Any debts that sole traders build up have to be paid by the owners. They are personally responsible for all of the debts of the business. This situation can be contrasted with larger companies where owners of a company have legal protection known as **limited liability**. This limits the debts owed by individual owners of a company to the sum of money they have put in to the business. In contrast, sole traders' debts are unlimited. If sole traders find themselves in debt, they may have to sell their house, car and other possessions in order to pay what is owed.

Key term

Limited liability: the maximum sum that a company's owners might have to pay out to meet debts, the maximum being the sum that they invested in the business. (This is the extent of their liability.)

Partnerships

A partnership is a business association between two or more owners of an enterprise. Partnerships are common in many types of business, such as small shops and professional practices like vets, doctors, solicitors and dentists.

Setting up a partnership usually involves creating a legal agreement (a partnership deed) between the partners. Partnerships usually have between 2 and 20 members, although this varies between countries. In some countries, legal restrictions allow a maximum of 20 partners. There are different types of partnership, such as ordinary (also known as "unlimited", where each partner is involved in the management of the business and shares the liability), and limited (also known as "sleeping"; these partners are not involved in the management or day-to-day running of the business and just invest in it instead).

The table below shows some of the advantages and disadvantages of partnerships.

Advantages	Disadvantages
More partners can increase the amount of capital available, and it is easier to access capital compared to a sole trader	Unlimited liability (except for sleeping partners who put money into the business but do not get involved in its running)
Can work on a larger scale than a sole trader	Disagreements between partners
Members of the family can join	Limitation of the number of partners (in many countries this is restricted by law to a maximum of 20)
Business affairs can be kept private	If the partnership is set up by legal agreement, it will need to be re-formed if one partner dies
Risks and responsibilities are spread among partners	Decision-making can be slower than for sole traders, as more people are involved
More people are involved than sole traders, which potentially leads to more informed decision-making	Increase in the operation cost as a result of a higher overhead costs
As more people are involved, specialisation and division of labour/workload can occur	

Most partnerships are not protected by limited liability.

Co-operatives

A co-operative is a business organisation formed by a group of "co-operators" who work together to achieve shared objectives. Profits are typically shared among the co-operators.

Co-operatives are formed in the following areas.

- **Agriculture**: groups of farmers take their produce to market jointly and share the income from sales. For example, a group of smallholders may run a market stall to sell their produce. They will keep a detailed record of what is produced and sold to divide the income in a fair way. Co-operatives can operate on an even larger scale, for example in sugar production where the product will often be sold to large multinational companies. Co-operators benefit from banding together to negotiate a price with the buyer.
- **Manufacturing**: groups of small-scale manufacturers may combine together principally to market what they produce cooperatively.
- **Retail**: the purpose of forming a retail co-operative is to sell items for what is seen to be a fair price, and protect shoppers from large retailers who may not share their profits with their shoppers. Shoppers at a retail co-operative benefit from potentially lower prices, or they may receive stamps which enable the purchase of future goods by using those stamps.
- **Workers**: when a company is struggling and likely to close down, the workers may want to take it over to protect their jobs and because they believe that the business can be made to run for a profit. In a workers' co-operative, a management committee will be set up to manage the business, and any surpluses (or losses) will be shared among the co-operators.

The table below shows some of the advantages and disadvantages of co-operatives.

Advantages	Disadvantages
Profits are shared among members	Limited access to capital
Members work collectively to solve problems	Members may lack managerial and technical experience
Employment is created for members	Decision-making is slow if members are consulted

Companies (private limited and public limited)

The word "company" suggests a group of companions who have come together to set up a business, which is, in essence, what a company is. To become a company, a business needs to become legally incorporated, which includes registering the company in the country in which the company has its head office. Once the business is set up, it becomes a legal body, separate in law from the owners. For example, this means that you can sue the company for wrongdoing, in contrast to sole traders and partnerships, where you would sue the people who own the business.

The owners of a company are its shareholders, and they appoint a board of directors to make the strategic decisions. The decisions they make include how much profit to distribute to shareholders, and what direction the business should take. The managing director is responsible for managing the business.

There are two main types of company: **private companies** and **public companies**. The main difference between a private company and a public company relates to where they receive their finances. A private company is privately owned by founders, managers, owners, etc., and investments come from them. In contrast, public companies have in part or in whole been "sold" to the public, who become investors in the business. The table below shows the main differences between the two types of company.

Key term

Private companies: companies that are owned by private shareholders and whose shares are not openly traded on a stock exchange. Shares can only be bought and transferred with the permission of the board of directors.

Public companies: companies whose shares are traded on a public stock exchange. Buyers and sellers can buy or sell these shares through an intermediary (a market maker). They can trade shares without having to get permission from the board of directors.

Private limited company	Public limited company
Financial support comes from private individuals (such as family members), personal savings, etc.	Financial support comes from the general public or loans from financial institutions
The shareholders have limited liability, therefore "Ltd." is included in the company name	Liability is limited to the amount invested in shares
Two to fifty shareholders	A minimum of seven shareholders and no maximum
The business is considered a legal entity	The business is registered with the registrar of the company

The tables below show the advantages and disadvantages of private limited companies and public limited companies.

Private limited companies

Advantages	Disadvantages
Profits are retained by the owners	Shares cannot be issued to members of the public
Greater access to capital than other forms of business	Liability – if the business gets into financial difficulty, the owners risk their private possessions as well as the assets of the business
Greater level of continuity even if a shareholder dies	Shares are not easily transferred without the consent of the directors
The original owners can stop outsiders from buying up their company	Financial statements are audited by the registrar of the company
	Decision-making can be slow
	Having a smaller number of people from whom to draw funds may restrict growth

Public limited companies

Advantages	Disadvantages
All shareholders have limited liability – if the business gets into financial difficulty, shareholders risk losing only the value of their shareholding. Their private possessions are protected by limited liability, and only the assets of the business are at risk.	Financial statements are audited and published. Financial statements and company reports have to be very detailed to satisfy the requirements of the bodies responsible for managing the stock exchange (the Listing Authority). This requires a lot of detailed paperwork, which is expensive and time consuming to generate.
Greater access to capital, since the general public can invest in the business/more collateral is available	The business may get too large, causing diseconomies of scale
Shares are transferable	Decision-making can be very slow
An incorporated business is easier to sell than an unincorporated one, because all of the complicated arrangements of setting up the business have already been made.	There is a huge amount of administration needed to register the company and to produce annual reports. Detailed accounts must be kept.

Tip

Make sure you can define limited liability, showing how it protects those entitled to it. You should be able to identify which types of business enterprise benefit from limited liability, for example limited partnerships and limited companies.

Franchises

A franchise business is made up of a franchisor and franchisees. The franchisor is an established business (often a public limited company) with a well-known name and products or services. It grants a licence to a franchisee so that it can sell the franchisor's products/services, and pay for the rights to use the name, logo and marketing, etc. Examples of franchises include KFC, Costco, Payless ShoeSource and United Colors of Benetton. The franchisee pays for the franchise to trade in a given area, and will receive training and equipment from the franchisor. The franchisee will be expected to share the profit with the franchisor.

There are several franchised coffee shops in the Caribbean, where the local franchisee trades under an established name, with an established format

Advantages	Disadvantages
The franchisor only has to invest a limited amount of capital in each franchisee, but takes profits from all of them.	The franchisee loses control over the branding and image of the business.
The franchisee will work hard to make a success of the business. In turn, the franchisee benefits from working with a proven business idea, trading under a well-known name, and receiving support and materials from the franchisor.	There is a reduction in profit that the franchisee earns from having to pay royalties to the franchisor, and having to adhere to regulations established by the franchisor.
The franchisee has broader access to the international market, and greater access to technical, managerial and financial support provided by the franchisor.	

Now try these

1. Joe and Maxim's gym business is a partnership that currently has two members-only gyms. They want to expand their business. What other forms of business ownership could they adopt in order to expand? Outline the benefits and risks associated with the new forms of business that you have identified.
2. Leon's restaurant business suffers from a lack of capital. He is currently the sole owner of the business, and is thinking about registering as a company and offering shares in the business. He has approached several investors who have told him that they will only invest if they have limited liability. Explain what is meant by limited liability, and how this would be of benefit to shareholders in Leon's company.

1.7

Differentiate among the types of economic systems

Over time, countries have had to develop economic systems so that the key decisions about what to produce, how to produce, and who will receive goods and services can be determined. As we shall see below, what is referred to as the 'mixed economy' has become the most common form of economic system.

Traditional (subsistence)

In the early days of development in the Caribbean, the islands were populated by indigenous people who lived a largely subsistence way of life. Trade was carried out primarily through bartering (see page 10). People who populated the islands learned to provide for themselves through fishing, hunting, subsistence agriculture, and collecting fruits and berries. Subsistence therefore relates to producing enough goods and services to live, but without making a significant surplus to build for the future. This economic system is simple, but limited.

Command or planned (socialist)

A command/planned economy is one in which the government creates plans for the production of goods, jobs and how goods are allocated between citizens of the country. Some Caribbean countries have embraced central planning more wholeheartedly than others, with Cuba being a good example of a country in which (until recently) most of the decisions were made by the state. Guyana is another example of a country in which many industries have been nationalised to become state-controlled and managed.

In a socialist economy, long-term plans will be made by the government, for example a five-year plan for production that sets out what the lead industries will be and how resources will be allocated to these industries. State planning may focus more resources on capital industries (such as ones that make machinery and equipment) and public utilities (such as electricity and railways), and fewer resources on consumer goods industries (industries providing goods for consumers).

Command economies are advantageous because they often lead to low levels of unemployment and inequality; however, as there is a lack of competition, there is no incentive for innovation and entrepreneurship.

Free market or capitalist

In contrast, a free market economy is one in which the decisions about how to produce, and what to produce, are made by private businesses and consumers. This type of economy relies on demand and supply. Consumers effectively 'vote' for the goods they want by buying them, and

businesses respond by serving these requirements, supplying goods that will reap a good profit for the capitalists (owners of the businesses).

Businesses in capitalist economies are all striving for profits, which creates real incentives for innovation and entrepreneurship. However, it also leads to massive inequality and waste.

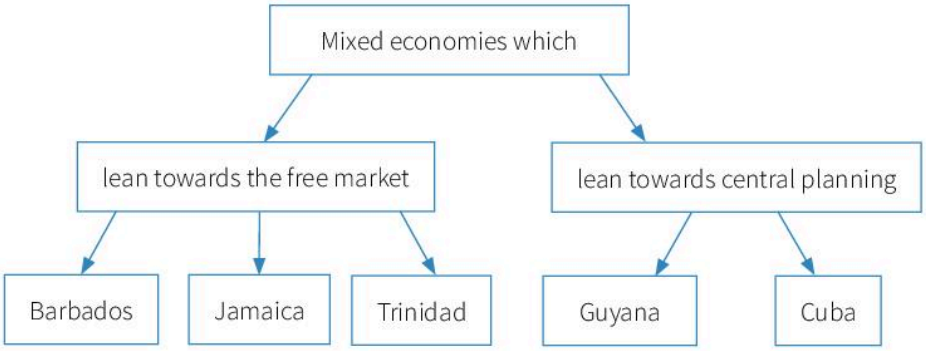
Mixed (public and private)

A mixed economy combines elements of command (state) planning with the free market. Some key decisions are made by the government, which might own some industries such as public broadcasting, water and electricity. However, many decisions will be made by large and small businesses, who will have considerable freedom to make their own business decisions.

The reality is that all countries in the Caribbean today have mixed economies, but some lean more towards the free market and some more towards central planning, as illustrated by the chart below.

Tip

You should be able to compare and contrast the different types of economic system.



Now try these

1. Identify what type of economic system operates in your country, and in one neighbouring country. Give examples of businesses that are in the public sector and businesses that are in the private sector in your country.
2. Find out which of the following industries are in the private sector and which are in the public sector in your country:
   - **(a)** Retail
   - **(b)** Water supply
   - **(c)** Telecommunications
   - **(d)** Banking
   - **(e)** Insurance
3. **Business in action**: Cuba is often cited as an example of a country where the role of the public sector is greater than in most other countries. Carry out some online research into the Cuban economy to find out which industries are in the public sector and which are in the private sector.

Key term

Business function: a business unit within an organisation, for example a department such as the finance department.

1.8

Describe the functional areas of a business

The functional area of a business (**business function**) describes the work that needs to be carried out by a particular section of a business. For example, the production department is made up of specialists and non-specialists who focus on making the goods. Five of the key functional areas of a business are described below.

Production

The production department is responsible for making goods to meet customer orders, to the standards expected and in a safe way. In a company that concentrates on making goods on a large scale, such as office chairs or cement, the production unit will usually be some form of factory or other industrial unit, for example a cement works.

The department will be overseen by the production manager, who may sometimes be called the factory manager or production director. He or she will manage the organisation of the production lines, and will develop a regular (often weekly) plan of production activities. This will map out the use of machinery and equipment, as well as the allocation of production workers between the various production activities. Below the production manager are other, less senior managers, who will help to make plans and schedules. Under these will be supervisors, with the responsibility for supervising the production workers.

Much of modern business involves service activity (as opposed to product activity), therefore new titles have developed relating to the main work carried out by a business. The term "operations manager" or "operations director" is used frequently instead of production manager. For example, in an insurance company, the head of operations may be responsible for creating the production plans and schedules.

The production/operations department typically employs a lot more people than the other functions described below (except in specialist organisations, for example those that concentrate on marketing or research and development).

Marketing

As we shall see in Chapter 6, the marketing department is responsible for identifying customer requirements, and developing plans to satisfy these requirements. The marketing department is led by a marketing director who, alongside the production director, is likely to be a member of the board of directors of the company.

Marketing is often split into a number of specialist areas, and it is the responsibility of the senior marketing managers to make sure these areas work closely together.

Important marketing functions include:

- Market research: carrying out and commissioning research to find out about customers and their requirements, to understand customer perceptions of a product, and to find out what the competition is doing.
- Advertising: creating television and radio commercials or other types of advertisements to bring customers' attention to the product.
- Promotional activity: designing and delivering promotions to generate customer interest, for example price reductions, free sample offers, etc.

Finance

The finance department provides financial information for a company. It will be responsible for:

- Overseeing the raising of finance for the company, and servicing debts, for example by making sure that interest is paid on loans.
- Keeping and presenting management accounts. These are created to help managers make decisions such as whether to make a product or to buy it from another company and then sell it. Management accounts help production managers to identify where savings can be made to production processes.
- Keeping and presenting financial records. These set out the past financial performance of a company, for example the sales made and costs incurred in the last 12 months, and how much profit has been made.

The finance department will be staffed by financial and management accountants, and by accounts clerks. Their work is highly structured, and they work to strict deadlines.

Human resources

The human resources (HR) function of a business is concerned with managing and motivating people in an organisation. It is sometimes referred to as the personnel department. HR seeks to look after people from the point when they are recruited until they leave (and sometimes into their retirement). HR organises training and development, including induction training when you first join an organisation. It also liaises with the trade unions that represent workers in an organisation.

HR is responsible for creating job advertisements and job descriptions, setting out what a job role contains. It will then help the relevant employees to organise

Part of the role of HR is to help organise the interview process so that the best candidate can be selected for a post

Key term

Prototype: an early version, sample or model of a product, built to test the effectiveness of the product concept. The idea is to learn from prototypes in order to make improvements, and working models are part of an ongoing process of product development.

selecting candidates for interview, managing the interview, choosing suitable role holders, training them, managing their welfare at work, paying them, taking away deductions for income taxes, managing aspects of sickness and allowances for time taken off work, and finally organising the termination of an employee's work, for example through retirement.

Research and development

Research and development (R&D) is concerned with carrying out research into new products and processes, and developing **prototypes** into finished products that work effectively in the market. Some organisations focus their work entirely on R&D, while for others this is just one aspect of the organisation's work. For example, in a pharmaceutical or chemical company, R&D will be carried out to create new products and to establish new formulae for existing products. R&D specialists will need to have good technical training and understanding associated with their company, for example scientific research knowledge or IT knowledge. The objective of R&D is to keep a business abreast with – and at the leading edge of – new developments in the industry.

Now try these

1. What functional areas are involved in the following?
   (a) Taking responsibility for the stages involved in making a product.
   (b) Checking that services supplied are to the standard expected.
   (c) Organising the payment of wages.
   (d) Keeping a record of the costs and revenues of a business.
   (e) Organising an advertising campaign.
2. **Business in action**: Identify the key functional areas in a local business. How many people are employed in each of the functional areas, and what are the key responsibilities of the employees in each function? Set this out in the form of a poster that you can present to your classmates.

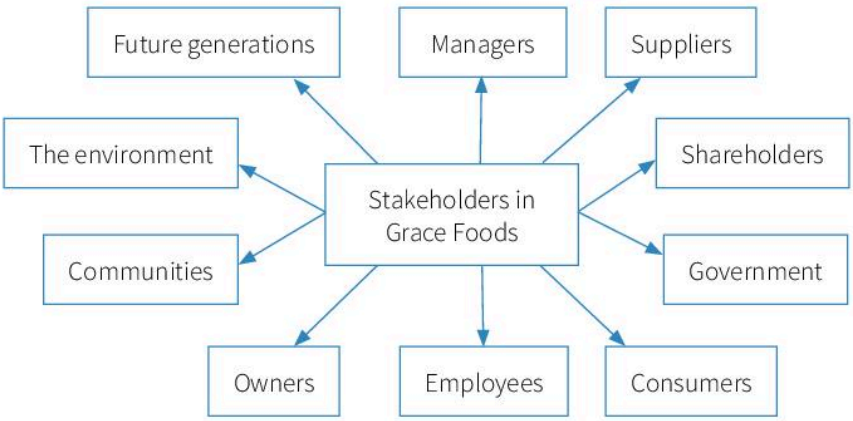
Tip

Make sure you can identify the key functional areas of business, and the specialist work carried out by employees in each of these functional areas.

1.9

Identify the stakeholders involved in business activities

A **stakeholder** is a person or group who has an interest in business activities. For example, the diagram below details the stakeholders involved in the business Grace Foods.



Grace Foods produces a range of Caribbean cuisine and foods that are sold in the Caribbean, the United States, the United Kingdom and elsewhere. The company was created in 1922 with the intention of supplying Jamaica with food supplies, initially selling foods like salted fish, flour and rice. Today, it sells far more, and everyone in the Caribbean is familiar with Grace Foods.

The different types of stakeholders involved in a business are detailed further below.

Owners

The **owners** of the company are the shareholders. Today, there are many shareholders in Grace Foods. These shareholders are mostly financial companies seeking a good investment, as well as people who benefit from Grace Foods' pension fund, descendants of the Kennedy family, employees and others. (Grace Foods was originally set up by John Grace and Fred Kennedy. Descendants of the Kennedy family are still shareholders in the company.) All of these shareholders want Grace Foods to do well and to make a healthy profit. The stake that a shareholder has in the company is called shares, and the share of the profit they receive each year comes in the form of **dividends**.

Employees

Employees are contracted to work for an organisation in return for a wage or salary. The stake that employees have in a company is their job and the wages that come with it. For example, employees at

Key term

Stakeholder: individual or organisation that owns one or more shares in a company.

Owner: person or people to whom a company legally belongs. These may be the independent owners or the shareholders of a company.

Dividends: the shares of the profit of a company that are paid out to shareholders. The sum a shareholder receives in dividends depends on how many shares they hold, and how much profit the company decides to pay as dividends. Dividends can only be paid when other claims on a company's profits have already been settled.

Grace Foods want to feel proud to work for such an important organisation, and the better the company does, the better the chance of receiving a wage increase. Employees who are also shareholders will take regular dividends.

Consumers

Consumers benefit from good-quality products sold by companies at what they consider to be affordable prices. Consumers want a steady supply of the goods they like, such as Grace baked beans and Grace aloe vera drink. They want these products to have good nutritional qualities, and to be healthy and safe to consume. They want these products to be available at their neighbourhood stores regardless of whether they live in Jamaica, London or New York.

Suppliers

Grace Foods' suppliers include large- and small-scale farmers as well as manufacturers of non-food products, and a host of other suppliers such as those supplying packaging materials. These suppliers also want Grace Foods to do well because, for many of them, the company will be a major customer taking regular supplies of a range of Caribbean food ingredients. Suppliers will often have supplied produce and materials on credit, and so have a vested interest because they will expect to be paid at a future date.

Communities

Grace Foods supports local communities. Employees are encouraged to engage in community schemes, particularly in educational, environmental and cultural programmes. The communities in which Grace Foods operates therefore have a strong interest in the success of the company and in partnership relationships with Grace Foods. Grace Foods offers scholarships to students at colleges and universities. In addition, the company pays careful attention to the needs of local communities, making food donations to the poor and those in need.

Tip

Make sure you can identify the key stakeholders in a business, and explain the role and function of each stakeholder. Can you explain how there might be a clash between the interests of two of the stakeholder groups, and how this difference in interest arises?

The environment

The environment is a key stakeholder in business. There are many ways that companies can degrade the environment through pollution and wasteful use of resources. At its manufacturing locations, Grace Foods has well-established processes that reduce waste and save energy. The company is committed to meeting standards set by the International Organization for Standardization, and has in place a number of environmental management systems. These include careful management of the use of water in production processing, and

careful management of food waste so that as much as possible can be recycled, for example as animal feed.

Future generations

Future generations are key stakeholders in any process of decision-making. Decisions made today by companies like Grace Foods will often have long-term effects, such as the provision of healthy foods that enable people to stay healthier for longer. If current resources are used to build hospitals, schools and factories, then these will benefit people who may not yet be born. The government also plays a key role in providing business solutions that benefit future generations through long-term investment planning. However, just as future generations will benefit from wise business activity today, they will also lose out due to poor decision-making. Poor decision-making about materials used in products and packaging creates waste, pollution and other harmful effects for society.

Government

The government is a key stakeholder in business activity, as it wants to see a prosperous economy that benefits citizens. The government will also benefit from larger tax revenues when businesses like Grace Foods are doing well. The government is also a key player in business activity, for example in the running of utilities such as water and gas provision.

1.10

Discuss the role and functions of the stakeholders involved in business activities

The role of a stakeholder is to play a part in decision-making processes in an organisation. Some stakeholders are part of a business (owners and employees), and are referred to as internal stakeholders. They work for the organisation, helping it to carry out its operations (what it does to produce goods and services). They have a stake in the company because their earnings are directly related to how successful the business is. The employees will want to work for an organisation of which they can be proud, and which pays them well and provides secure jobs.

External stakeholders are people outside an organisation who have an interest in how the organisation runs and the products it produces. External stakeholders include consumers, suppliers, communities and the government.

Below we examine some of the roles and functions of key stakeholders.

Now try these

1. Identify a local business that interests you or one whose products you consume. Who are the key stakeholders in this business? What is their specific stake in the organisation?
2. In what ways can a business that is local to you take actions that will benefit future generations in your area?

Key term

Entrepreneur: someone who shows vision and creativity, and who takes risks by creating a business venture.

Employers

An employer pays for the services of employees as well as paying for the resources that go into making goods and services. Employers are frequently referred to as **entrepreneurs** because they take the risk of setting up a business. They will use some of their own capital (money) to finance the start-up of the business and ongoing operations. Their role and function is to combine the inputs of labour, capital (machinery and equipment) and land (resources provided by nature such as oil, gas and raw materials). Employers want to see their businesses make healthy profits, and many entrepreneurs want to see their businesses grow over time, although some are happy to manage a relatively small enterprise.

Employees

Employees provide labour services in the form of physical labour and also mental labour (for example making calculations, creating spreadsheets, designing new product ideas, etc.). The employees will exchange their labour for a wage (usually paid weekly) or a salary (paid monthly). Employees want the business they work for to do well because this will impact directly on the wages they earn. However, more than this, employees will want to work for an organisation that provides prospects and job security, and often they will also look for interesting work with responsibilities. We can illustrate the work of employees by looking at the work of an accounts clerk and a compliance officer.

- The role of an accounts clerk is to serve as support to the accountant (in a larger company). The clerk's role is to verify, organise, process and store the financial records of the company, and to provide financial reports for managers and financial records for the stakeholders. In a small business, there may only be one accounts clerk, and therefore the clerk may have responsibility for all of the financial reporting, including the book-keeping operations (for example, keeping regular financial records of transactions and of the major financial activities of the business).
- The role of a compliance officer is to ensure that the business operates in accordance with accepted standards, and to execute the compliance policy to ensure that the business meets professional and accepted business standards. Businesses are expected to meet certain standards of professional behaviour, for example upholding laws relating to health and safety. A compliance officer will create a list of standards, and then put practices into place to ensure the various sections of the business are complying with acceptable working practices, such as making sure waste products are handled safely, and ensuring that staff are appropriately trained.

Consumers

In many ways, consumers are the key stakeholders in an organisation. They purchase a company's goods or services, and when they are not

satisfied they may switch to buying from a competing organisation. Consumers also provide feedback to the business on their goods/services. It is the responsibility of the marketing department of a business to collate and analyse this feedback, and we will find out more about marketing in Chapter 6. Consumers want to be supplied with goods and services that meet their requirements, and the sums of money that consumers are willing to pay for goods is often a clear indication of positive or negative consumer feedback.

Suppliers

The role of suppliers is to supply raw materials, components, services and finished products to allow businesses to create their products/services for their customers. A supplier will seek to build relationships with businesses, enabling them to supply orders in the short and long term.

Communities

The community consists of the groups and individuals who live in areas affected by a business. One major role that a community often plays is to provide employees as well as infrastructure for the business. Another role is that communities often give businesses feedback on the impact they are having on the local area. On the negative side, communities may be impacted by the noise from the factory buildings or the road congestion caused by factory traffic. They may also be impacted by noise and air pollution, as well as any illegal practices a company may be performing, such as disposing of harmful waste unsafely. Another role of communities is to provide an incentive for businesses to do good work, such as organising charitable activities and providing necessary services. This leads to happy customers/consumers, which is good for the business.

Government

A government's main role in terms of businesses is to pass laws, make sure there is law and order, and achieve economic stability to encourage business activity. Higher living standards mean consumers have more income to spend on purchasing goods/services. Governments often encourage some businesses and business activities, for example through subsidies (payments to support production) and direct purchases of business output. Governments can also play the role of a partner to businesses. For example, since 1993 in Barbados there has been a **social compact** between the government, employees and businesses (a **tripartite agreement**) to develop new **sunrise industries**, for example those involving tourism, education and export services such as informatics, sports and entertainment. Governments also have a direct interest in supporting successful businesses because flourishing businesses are able to pay more taxes.

Key term

Social compact: the term used for ongoing agreements between the business sector, the government and employee representatives.

Tripartite agreement: an agreement between three parties, such as the tripartite social compact in Barbados between employer representatives, employee representatives and the government.

Sunrise industry: a relatively new industry that is growing very quickly.

Now try these

1. What is the difference between a shareholder and a stakeholder? Can a shareholder be a stakeholder in a business?
2. In what ways can government be said to have a stake in business?
3. **Business in action**: Choose a business that operates in your locality. Identify two stakeholders in this business that have different interests. How might the interests of these two stakeholders clash?

Tip

Make sure that you can define the term "business ethics", and can identify the ethical issues involved in setting up and running a business of your choice.

1.11

Explain the ethical and legal issues in the establishment and operation of a business

Business ethics is concerned with businesses doing the "right thing", and behaving in a fair and honest way. An ethical business will provide its employees with fair wages, pay its tax dues to the government, and produce safe products that are useful to consumers. An ethical business will not make false claims or try to mislead consumers.

"Illegal" means going against the law. Being "unethical" is not necessarily illegal, but it is "not the right thing to do". Laws mean that there are certain statutory regulations that companies have to adhere to, for example the filing of taxation records, licensure, the disposal of garbage, adherence to employment laws, etc.

Some examples of ethical issues relating to the establishment and operation of a business are described below.

Ethical practice and legal issues	Why the issues are important
A business should be a bona fide firm or establishment, and not used as a "front" for money laundering and other illicit activities	The United States' anti-narcotics authority has identified Haiti and Belize as being among a small number of Caribbean countries where money from illegal narcotics trading has been paid into the accounts of companies set up solely for illegal money laundering. It therefore becomes difficult to identify whether money has been acquired in a bona fide way from honest trading.
A company should make sure that the capital to set up and run its operations is obtained legally and not tainted with illegal operations as a source of funding	Businesses must obtain money legally, and ensure that it has come from a legal source. Illegal funds usually come from some form of racketeering or crime, and give a business an unfair advantage over other businesses who obtain their finances through legal means.
An ethical business should make sure taxes and national insurance contributions are paid to the government on time	In the Caribbean, there are major issues surrounding tax havens, where certain territories have set themselves up as offshore financial centres (OFCs). These allow large, international companies and wealthy non-residents to avoid paying taxes in other countries. They have a very low tax regime and therefore attract large pools of capital, particularly from companies that are seeking to avoid paying taxes. This means governments collect less tax and can therefore provide fewer services. In recent years, there has been a strong backlash against tax avoidance schemes by those who argue that profitable businesses should make a sizeable contribution to the communities in which they make their profits.

Now try these

1. The Cayman Islands is an example of an offshore financial centre in the Caribbean. What benefits will there be to the Cayman Islands from operating as an OFC? Do you think there are any ethical issues for the Cayman Islands as a result of being an OFC?
2. Money laundering occurs where criminals disguise money that has been obtained from illegal activities so that it appears to have been legally generated as profit. Who stands to lose out from money laundering? What measures might governments take to prevent money laundering?
3. **Business in action**: Study your national newspaper for the period of a week to identify situations where business ethics have come into question. Write a short commentary on this issue to keep in your business studies notes.

1.12

Explain the principles that must be adopted in the establishment and operation of a business

There has been increasing pressure for businesses to operate in a responsible way (referred to as "corporate social responsibility" or CSR), and to adopt certain ethical and legal principles. The Global Reporting Initiative (GRI) is an initiative that has been created by an independent international body to set out the key aspects that companies should be reporting on, including their ethical and environmental practices (for example the minimisation of waste and pollution).

Examples of ethical practices are outlined below.

The adoption of a business code of ethics

A code of ethics makes clear what "doing the right thing" means. All businesses should have a code of ethics to assist managers and other employees in determining if certain behaviours are appropriate and acceptable in their dealings with customers, suppliers and outside agencies.

Royal Caribbean Cruises Ltd. is the world's second-largest cruise ship company, and has what it describes a "Code of business ethics and conduct". The chief executive of the company describes its commitment as going "beyond ABC", for example above and beyond compliance. This involves doing more than the law requires. Key principles and practices of the company's code are "people work together with respect and dignity", "supporting of human rights", "complying with

Royal Caribbean Cruises' code of ethics requires the company to comply with the law and respect the environment, among other aspects

Now try these

1. What do you understand about corporate social responsibility (CSR)? Why do businesses have a responsibility to the wider community?
2. Some commentators argue that businesses do not have to focus on ethics but rather on keeping within the law. What do you think of this view? Is it a view that is good for business?
3. **Business in action**: You are a member of a task group responsible for creating a code of ethics for a well-known hotel chain in the Caribbean. Create a list of the key components of such a code of ethics. For example, one component might be a statement that the hotel will be honest in all of its dealings with customers and potential customers.

the law", "not engaging in corruption and bribery" and "respecting the environment". All employees are given training in the code, and are expected to comply with it at all times.

Policies on environmental issues

An environmental policy outlines how a company deals with environmental issues. Most companies have policies on environmental issues such as eliminating waste, recycling materials (wherever possible) and minimising energy use, etc. Policies for the environment work best when they are associated with clear targets, with numbers supporting them, such as "we will reduce emissions by 20 per cent by 2025", or "we will eliminate the creation of gases that are harmful to the environment by 2025".

Handling of personal information

Employees, consumers and suppliers have personal information that should not be revealed to others. This includes financial information such as their bank account details, or details about how much they are being paid. Policies should be put in place to protect personal information, such as only keeping necessary data or not sharing data unless given permission.

1.13

Explain the consequences of unethical and illegal practices in business

If a business acts illegally or unethically, there will be serious consequences, both for the business itself and for society.

One of the big issues in the Jamaican music industry since the late 1990s has been the occurrence of Payola. Payola refers to situations where record companies pay (bribe) radio stations to give airtime to their music and recording artists. There has been much criticism of Payola, and Chris Blackwell (the founder of Island Records) made a statement to the effect that this was leading to the widescale playing of bad music.

Payola is just one example of a situation where customers are short-changed, and get an inferior product as a result of unethical and illegal business practices. An illegal practice is one that contravenes the laws of a country or group of countries, and unethical practices are ones that go against the principles of reasonable conduct and behaviour.

Other examples of unethical and illegal practices are explained below.

Misleading advertising

A misleading advert placed in a newspaper, or broadcast on the radio or television, is likely to breach laws regarding the provision of information about goods. For example, in Barbados, the Consumer Protection

Act (viewable online) makes a number of references to the way in which goods must be described, for example the descriptions must be accurate. The act gives consumers the right to go to court to take action against misleading advertising that has led them to make poor buying decisions, or to use products in an unsuitable way.

Withholding of tax

When individuals and businesses fail to pay taxes, they are cheating the government of revenue. For example, in May 2013, the US government's Internal Revenue Service (IRS) asked for information from the First Caribbean International Bank (FCIB) concerning the accounts of a number of US citizens who had set up accounts with a view to evading taxes on their income in the United States. This is just one example of how individuals and companies have sought to reduce their tax liabilities by hiding income away in overseas bank accounts.

Unethical disposal of waste

Another major example of unethical practice is the illegal disposal of waste. One example is the case of Coles Cave, St Thomas, Barbados. Molasses has been dumped near the cave and has seeped into it, causing fungus and an awful stench. The once popular cave can no longer be used. The dumping was not illegal, but the continual dumping after the cave was affected is unethical.

Money laundering

Money laundering is the process of taking the proceeds from criminal activity and making them look as if they have been gained legitimately. This involves setting up bank accounts – often for fictitious companies and individuals – and then placing the proceeds into these accounts, which appear to have been acquired legitimately.

Tip

Make sure you can cite examples of unethical and illegal practices in business. The best way of doing this is by keeping a diary of instances that appear in your national media relating to unethical and/or illegal business practice.

Now try these

1. Identify a situation where large quantities of waste appear to have been disposed of illegally close to where you live. What appears to have been the source of this pollution? Does any action appear to have been taken against the polluters?
2. Why is the withholding of tax an issue for society? Who will lose out when businesses withhold tax?
3. **Business in action**: Use the Internet to search for the terms "money laundering", "Caribbean" and "criminal". Find out which Caribbean countries are listed as having engaged in money laundering. What action appears to have been taken against the money launderers?

1.14

Describe the careers in the field of business

A career is an occupation that a person carries out for a considerable period of their life. There are many opportunities to build a career in business, and some examples of these careers are set out below.

Career title	Description
Advertising and public relations	Advertising and public relations provide opportunities for those with good communication skills. An advertising agency employs people who can create visual advertising using video or graphics, requiring good design skills. In addition, there is scope for people with good writing skills, for example in the creation of advertising jingles and straplines (a short, catchy statement that encapsulates a product and its benefits). People with a career in public relations (PR) work closely with journalists and have sound writing skills. They might work for a PR agency and therefore work with a number of companies at the same time. They need to be able to make each client feel special, and listen to their needs and expectations.
Compliance officers	A compliance officer is someone who makes sure that a company or organisation is complying with all of the legal requirements associated with that industry. For example, the company will need to comply with product safety legislation, health and safety legislation, and pollution legislation. Compliance officers therefore need to have good people skills, because they need to talk regularly to key members of their company, and to those who create company law, to find out what is expected. They then educate employees to help them comply with expectations. Good communication skills are required to create policies and procedures. Compliance officers will also need to be able to train staff to meet compliance standards.
Strategic planners	Strategic planners are those who make the big, long-term plans in an organisation, therefore people in these roles tend to have taken years to gain experience and knowledge as well as confidence. Strategic planners need to understand the fundamental issues and concerns facing an organisation, and to have a good grasp of the wider environment in which the business operates.
Education (online and face to face)	An education officer is someone who provides education and training courses within an organisation. He or she will design the courses, and often provide education and training in the form of workshops, demonstrations and lectures. Every organisation will need to provide education and training relevant to the needs of its employees and to the needs of the organisation. Increasingly, education and training involve online content, which may be bought in from an external provider or specifically developed for in-house training purposes.
Information officers	An information officer collects and publishes information within an organisation and for a wider public. For example, an information officer working within the pensions department of a company would keep employee records setting out the contributions they have made toward their pensions, how long their service has been, and their pension entitlements to date. Information officers are good at handling complex data and working with spreadsheets of information. They also have good computer skills and much of their work will be based on keeping clear and accurate records.

Entrepreneurs	An entrepreneur is someone who creates an enterprise or business with the aim of providing some form of goods, service or information, usually with the intention of making a return or profit. There are lots of opportunities for young people to establish their own enterprises. This may involve developing a personal interest into a business (for example hairdressing or jewellery-making), spotting a gap in the market (for example a specialist outlet selling school bags and pencil cases), combining two existing ideas into a new idea, creating an online opportunity for goods and services that are currently sold solely from physical outlets, etc. Entrepreneurs need to have drive and determination, and be prepared to work very long hours. The initial rewards may be low, so they need to be willing to make sacrifices. They need to know when to take decisions on their own and when to try out suggestions made by others. Above all, an entrepreneur needs to have the courage to take a risk and to follow ideas through in a determined way.
Human resources personnel	Human resources personnel play a key role in the human side of an enterprise. HR personnel are responsible for important areas such as the recruitment and selection of new employees. This will involve identifying the key elements of a particular job (this is referred to as **job analysis**). Human resources personnel will then be responsible for creating job descriptions and job advertisements, as well as the questions that will be asked in a job interview. The interview will then seek to identify candidates who most closely meet the requirements of a **job specification**. In HR, staff will also be responsible for areas such as paying wages and deducting taxes, as well as dealing with complaints about employees, for example over poor timekeeping. Human resources personnel need to be able to work closely with people.
Web designers	A **web** designer is someone who sets out content for the Internet in the form of web pages consisting of graphics (including moving graphics) and text. A **website** is created using a mark-up language called HTML. A web designer will then build a series of web pages into a website using HTML tags that define the content and metadata which is set out on each page. The website designer may use website templates that are available commercially. Many web designers use a "WYSIWYG" ("what you see is what you get") editor like Adobe Dreamweaver to speed up the process of web design, and to help them to see what the end product will look like as they build the site. Web designers may create and modify websites solely for their own company, or they may be contracted to supply websites for other companies.
Web planners	A web planner, as the name suggests, is someone who plans a website. He or she first needs to establish the objectives for the site, such as what it sets out to achieve, who will have access, the key areas that it will contain, the involvement of Internet service providers (ISPs), and the software it requires to operate. Web planners need to work closely with web designers, but ultimately the web planner will make the plan for the website. The web planner will select the web designers who will create the website, and detailed discussion will need to take place about how it is envisaged that web users will interact with the site.
Software developers	A software developer or programmer is someone who creates computer software. Software developers will have learned how to use **programming language** such as Java and COBOL, and use these to write, test and debug **computer programmes**. Some simple programmes can be written in a few days by one person, but more complex programmes require a team of programmers to create the programmes and then to make sure that they run effectively. Programmers will meet with 'clients' (often within their own company) who need programmes to simplify their work, or to create better interactions with customers, for example a programme to manage customer orders. The programmer then has to create a logical series of instructions that will enable a programme to run smoothly.

Key term

Job analysis: the process of identifying the qualities and requirements necessary to do a job or set of tasks. This will involve studying what is done in a particular job.

Job specification: a list setting out the requirements of a job. There are usually two sets of criteria: those that are essential and those that are desirable.

Web: groups of servers that are connected to share computer-generated information. The World Wide Web (WWW) links servers on a global basis.

Website: a location that is connected to the World Wide Web and which contains one or more pages of information.

Programming language: a formal language that is used to create a set of instructions as part of a computer programme.

Computer programme: a set of instructions that a computer can interpret and put into practice.

Now try these

1. Identify two careers in business that particularly interest you from the list above or from opportunities you have discovered elsewhere. Carry out some research on the Internet into what these careers involve and which businesses in your country employ people in these careers.
2. What are the essential differences between a web designer, a web planner and a software developer?

Develop your exam skills

PAPER 1

1. Which of the following exemplifies a barter economy?
   - A Goods and services are exchanged for money payments
   - B Goods are not traded because there is no double coincidence of wants
   - C Goods and services are exchanged for other goods
   - D A commodity such as cowrie shells serves as a means of payment

2. Which of the following is part of the public sector of the economy?
   - A A public corporation
   - B A public company
   - C A co-operative
   - D A franchise

3. Which of the following types of business does not have limited liability?
   - A A public company
   - B A private company
   - C A limited partnership
   - D A sole trader

4. Which of the following functions of business is responsible for the motivation and employment of people in the workplace?
   - A Production management
   - B Research and development
   - C Human resources management
   - D Marketing

5. The term "stakeholder" refers to someone who:
   - A Reads about business activity and takes an interest in business
   - B Has a personal interest in the decisions made by an organisation
   - C Is thinking about setting up a business of their own
   - D Wants to find out more about how businesses are formed

6. Who are the owners of a public company?
   - A The individuals who originally set up the company
   - B The board of directors of the company
   - C The shareholders of the company
   - D The family who own the company

7. The role of a compliance officer mainly includes:
   - A Making sure that a company meets legal standards and requirements
   - B Looking after the welfare of the employees of a company
   - C Ensuring that information technology staff are trained in new applications
   - D Providing information about an organisation and its activities

8. Making payment by means of a cellphone is referred to as payment by:
   - A M-money
   - B Barter
   - C Bill of exchange
   - D Telephonic money order

9. The process of transferring a business from the private sector to the public sector is referred to as:
   - A Privatisation
   - B Public sectorisation
   - C Nationalisation
   - D Sale to the public

10. Where a bank account is set up to siphon off the proceeds from criminal activity this is described as:
    - A Money laundering
    - B Electronic funds transfer
    - C A bank draft
    - D Ethical behaviour

PAPER 2

1. (a) Define the term "barter system", citing relevant examples. **(2 marks)**
   (b) Discuss two (2) problems associated with the barter system. **(4 marks)**
   (c) Explain how the introduction of a money system solved the problems identified in question (b) above. **(4 marks)**

2. (a) Define the term "business ethics". **(2 marks)**
   (b) Describe two (2) ethical business principles practised by a firm in your country. **(4 marks)**
   (c) Explain two (2) consequences of unethical business practice. **(4 marks)**
   (d) Identify two (2) organisations that have been established in your country to prevent unethical business practices. **(2 marks)**
   (e) (i) List two (2) legal regulations related to ethics that must be adhered to when setting up a business. **(2 marks)**
   (ii) Discuss two (2) obstacles faced by businesses in your country when trying to follow ethical practices. **(6 marks)**

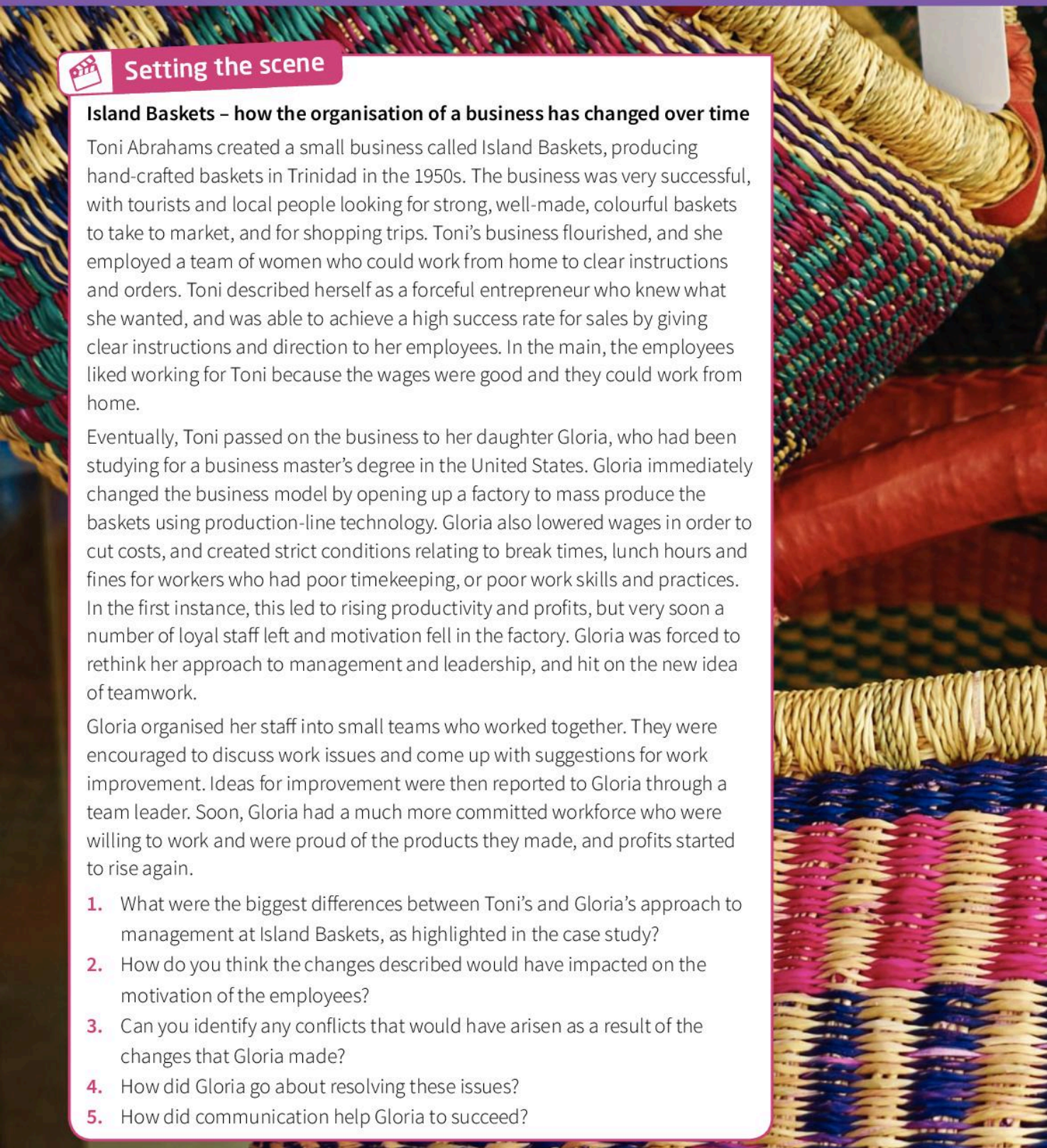
3. (a) List two (2) types of economic systems practised today. **(2 marks)**
   (b) Explain two (2) ways in which the government of your country contributes to the efficient operation of the economic system. **(4 marks)**
   (c) What are the differences between any two (2) economic system practices in the modern economy? **(4 marks)**

4. John Brown has just inherited one million dollars ($1 000 000) from his grandfather's estate. He is not sure what to do with his new-found wealth, and seeks the advice of a financial analyst. He is told that there are lots of opportunities to set up new businesses and that if John can come up with a suitable idea, this would be a good way of investing his money and making it work for him.
   (a) Identify two (2) types of business that John Brown could start. **(2 marks)**
   (b) List the five (5) functional areas of a typical business organisation. **(4 marks)**
   (c) State the role of any two (2) functional areas identified in question (b) above. **(4 marks)**
   (d) Define the following terms, giving an example of a type of business commonly found in each:
   (i) The public sector
   (ii) The private sector **(6 marks)**
   (e) State two (2) reasons why a government may nationalise an industry. **(4 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

2 Internal organisational environment



Setting the scene

Island Baskets – how the organisation of a business has changed over time

Toni Abrahams created a small business called Island Baskets, producing hand-crafted baskets in Trinidad in the 1950s. The business was very successful, with tourists and local people looking for strong, well-made, colourful baskets to take to market, and for shopping trips. Toni's business flourished, and she employed a team of women who could work from home to clear instructions and orders. Toni described herself as a forceful entrepreneur who knew what she wanted, and was able to achieve a high success rate for sales by giving clear instructions and direction to her employees. In the main, the employees liked working for Toni because the wages were good and they could work from home.

Eventually, Toni passed on the business to her daughter Gloria, who had been studying for a business master's degree in the United States. Gloria immediately changed the business model by opening up a factory to mass produce the baskets using production-line technology. Gloria also lowered wages in order to cut costs, and created strict conditions relating to break times, lunch hours and fines for workers who had poor timekeeping, or poor work skills and practices. In the first instance, this led to rising productivity and profits, but very soon a number of loyal staff left and motivation fell in the factory. Gloria was forced to rethink her approach to management and leadership, and hit on the new idea of teamwork.

Gloria organised her staff into small teams who worked together. They were encouraged to discuss work issues and come up with suggestions for work improvement. Ideas for improvement were then reported to Gloria through a team leader. Soon, Gloria had a much more committed workforce who were willing to work and were proud of the products they made, and profits started to rise again.

1. What were the biggest differences between Toni's and Gloria's approach to management at Island Baskets, as highlighted in the case study?
2. How do you think the changes described would have impacted on the motivation of the employees?
3. Can you identify any conflicts that would have arisen as a result of the changes that Gloria made?
4. How did Gloria go about resolving these issues?
5. How did communication help Gloria to succeed?

Objectives

After reading this chapter, you should be able to:

1. Describe the functions of management 47
2. Outline the responsibilities of management 50
3. Construct simple organisational charts 52
4. Interpret simple organisational charts 55
5. Outline the essential characteristics of a good leader 57
6. Discuss the different leadership styles 58
7. Identify potential sources of conflict within an organisation 60
8. Outline strategies used by employers and employees to gain an upper hand during periods of conflict 62
9. Describe strategies for the resolution of conflict within an organisation 64
10. Establish guidelines for the conduct of good management and staff relations in the workplace 67
11. Identify strategies for motivating employees in a business 69
12. Evaluate the role of teamwork in the success of an organisation 72
13. Outline strategies for effective communication within an organisation 74

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

2.1

Describe the functions of management

A **manager** is responsible for directing and/or controlling part or all of an organisation. **Management** involves different levels of seniority, from senior and middle managers down to junior and trainee managers.

Role	Description
Senior manager	Has significant management responsibility, e.g. leading the marketing department and helping to shape key planning decisions
Middle manager	Makes important decisions involving significant resources
Junior manager	Takes direction from above, and is mainly responsible for making sure that operations run smoothly
Trainee manager	Directed heavily from above while learning management skills

There are a number of functions associated with a typical management role, and these are outlined below.

Planning

The purpose of a plan is to give a clear sense of direction by creating short- and long-term goals, and by setting out the methods and procedures to achieve these goals. For example, managers working for Grace Foods may intend to create and launch several new recipes for Caribbean health foods which are designed to win a leading market share. In order to carry this out, managers must plan which recipes to use, how to source suitable resources (suitable food ingredients, new machinery and production lines), and they must also plan new advertising initiatives to let consumers know about the new products. Most organisations have a mission statement, which sets out the values and aims of the company. This statement usually guides the process of planning, because the aims and values of the company are the end result desired by it.

Planning therefore involves:

- establishing short- and long-term goals
- creating the plans to achieve the goals (methods and procedures)
- sourcing and preparing the required resources.

Key term

Manager: a leader who is expected to organise people, resources and finances by setting up systems and procedures in a logical and efficient way.

Management: the process of bringing the factors of production (human and non-human) together to ensure organisational goals are achieved.

Key term

Systems: business processes that are designed to deliver goods and services to customers, for example the IT system provides employees (or customers) with an effective information and communications system.

Procedures: a series of steps required to complete tasks, for example procedures for dealing with customer complaints.

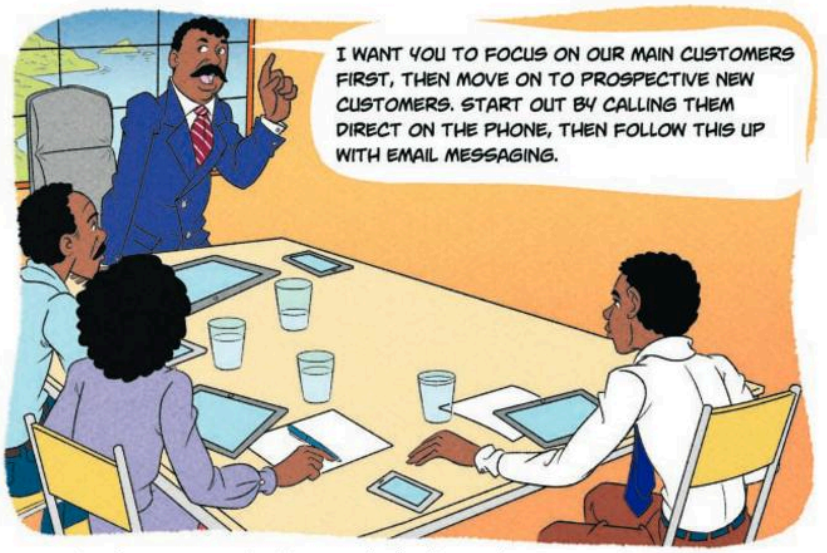
Directions: giving clear instructions (such as to subordinates).

Control system: consists of methods such as targets and performance indicators, used to identify whether a business is on track to achieve its objectives. Where it is not, the system brings in actions to put it back on track.

Organising

The most successful managers are those who make the best decisions for the future of the business, and these decisions need to be planned.

Managers are expected to organise people, resources and finances by setting up **systems** and **procedures** in a logical and efficient way. To do this, managers need to make the most of the resources available. An organised manager gives priority to the most important tasks to ensure that these are completed on time.



An organised manager prioritises tasks for his workers

Organising therefore involves:

- prioritising and selecting tasks
- deciding who will undertake each task
- assigning the tasks – delegating authority and responsibility
- coordinating individuals to perform the necessary activities
- making sure that things are done on time and in an ordered way.

Directing

Leaders and managers need to give clear **directions** and instructions to ensure that tasks are completed. They will have responsibility for ensuring that all employees perform their jobs well and on time. Different managers often adopt different styles of leadership. Some managers just give orders, but others involve the workers in deciding who does which job and how it is to be done.

Controlling

Managers need to create an effective **control system**, to make sure that plans are kept on track, resources are used in an appropriate way, and deadlines are met. A control system includes targets and performance indicators, so that performance can be measured and managers can

track performance against the targets set. When the organisation is falling short of its targets, appropriate control actions can be taken (for example by allocating more resources to tasks).

Coordinating

Coordination is closely related to organisation, and involves making sure that activities which are interrelated are carried out in a structured way. The coordinator (manager) brings together the activities of different people, projects and plans in an integrated way. Coordination is also about different departments coordinating their efforts, as well as the coordination of activities within one department. Managers at Grace Foods will ensure the coordination of resources coming into the factory and products leaving the factory, to make sure products arrive at the shops in a systematic way.

Delegating

Managers cannot do everything, and an effective manager should encourage **subordinates** (supervisors or other employees) to be accountable for a wide range of different tasks and duties. By allocating tasks and goals to subordinates, managers delegate; they hand over responsibility for carrying out a task to someone else in the organisation.

Tasks can be delegated if they can be completed accurately and safely, on time and to the required standards by someone else in the organisation. They should only be delegated to someone who is competent, qualified and authorised to do the delegated tasks.

Some managers are reluctant to delegate because they want to keep control of activities themselves and do not trust others. The problem here is that a manager may take on too many tasks and will not be able to complete all of them well. This can also be a negative experience for subordinates as they do not feel trusted to carry out the work. However, this needs to be balanced against the danger of trusting others (typically subordinates) to carry out work that they are not able to do.

Good delegation enables more work to be completed with better results. Delegation also has a motivating element in terms of trusting and empowering others to take on more responsibility. Senior managers will often delegate key responsibilities to middle managers, who in turn will delegate tasks to junior managers.

Motivating

Motivation is a drive that exists within an individual to do something well. Motivation is therefore said to be intrinsic (i.e. inside an individual). In situations where individuals do not appear to be intrinsically motivated, then managers will need to develop ways of encouraging them to be motivated. Managers therefore need to create the climate

Key term

Subordinate: someone of a lower rank or position.

Tip

Make sure you can list and explain the main functions of management. A useful mnemonic for learning some of the major functions is the acronym POSDCORB, where the letters stand for:

- planning
- organising
- staffing (recruiting and motivating people)
- decision-making
- coordinating
- budgeting (creating plans set out in numbers, for example a manpower budget).

Now try these

1. Identify a task that you completed recently which has required management skills (ideally one where you have had to organise the work of others). Which of the management functions identified above did you employ to get the task completed? How successfully did you operate in managing the task?
2. Think of a situation where you have been intrinsically motivated, and another where your motivation to carry out a task was poor. Why were you motivated in one instance and not in the other? How did this impact on your performance?
3. **Business in action**: Identify a situation where responsibility has been delegated to you, either in a work, school or family situation. Who did the delegation? Why do you think that they delegated the task to you? Did the delegation work, i.e. did you do what was expected of you? Why or why not?

and opportunities that will enable individuals to be motivated in work situations. This involves:

- finding out about individual employees, including their aspirations and motives
- providing opportunities for individuals to be motivated at work, for example by providing interesting work tasks, opportunities to develop, opportunities for promotion, and suitable rewards for tasks completed.

Some managers are able to find out about their employees through annual appraisal interviews, thus enabling managers to provide opportunities tailored to individual employees. These interviews can also be an opportunity to motivate employees to take on new responsibilities and to outline their ambitions.

2.2

Outline the responsibilities of management

Managers are accountable to the key stakeholders whose interests they represent. The key stakeholders (often groups of people) that managers are responsible to are discussed below.

Owners and shareholders

Managers are responsible for managing the assets (the buildings, machinery, raw materials and employees) of the owners and **shareholders** of a company, to maximise profits and to ensure optimum returns on investments. Good managers will combine these resources and carry out the management roles (coordinating, controlling, etc.) to keep costs as low as possible, to maximise efficiency and productivity, and to earn profits. A surplus will be achieved when the profits of the business outweigh the costs of running the business.

Key term

Shareholder: someone who is a part-owner of the business; the shareholder will typically have many shares.

Employees

Good managers are responsible for running a profitable business, enabling suitable wages to be paid to the employees. In addition, they are responsible for providing safe and adequate working conditions (including appropriate rest breaks, adequate toilet facilities and suitable temperatures, by enforcing legal requirements for safety and cleanliness). Managers are also responsible for creating good human relations so that employees feel valued, listened to and a part of the work family.

Managers should provide training opportunities for employees, so that employees can perform their work tasks well and are able to develop and progress in the workplace. They are also responsible for providing and maintaining good communication so that instructions are clear, employees are kept informed, and teamwork is encouraged.

Society

Businesses provide jobs and income, which benefits the economic development of communities, but they also provide some less-welcome side effects such as pollution. Wider society is therefore a key stakeholder in a business. Good managers will listen to the views of the wider community, for example by reading letters with concerns about the business, such as criticisms about noise or pollution. Good managers will also seek to get out into the community, for example by sponsoring community activities such as sporting events and by giving talks that show how the business is interacting with the wider community.

Customers

All managers work with customers – people whose expectations and needs they have to meet. Customers are the people that an organisation serves. There are two types of customers: internal customers (people within an organisation who are served by someone else within the organisation), and external customers (people outside the organisation who are served by people within the organisation). We are more familiar with external customers, for example the customer who is served by a shopkeeper. However, internal customers are just as important, for example the production-line worker who is served by a colleague in the stores department of a factory.

One important role of a manager is to make sure that all customers are served efficiently, for example by setting reasonable prices, establishing good customer services, meeting customer expectations of products, etc. The marketing manager has a key role in making sure that the marketing department identifies what customers are looking for, and that the company services these needs. Other managers will want to make sure that people in their department get the service that they require from others in the organisation.

Now try these

1. Can you identify any other stakeholders that might have a stake in good management? What would their stake be? Explain by reference to a specific business.
2. The cashier at your local supermarket serves external customers. Other people who work in the supermarket will serve a number of internal customers. What roles do these other people have, and how do they serve "internal customers"?
3. **Business in action:** Your school is an important organisation, and the senior managers are accountable to a range of stakeholders in the school. Who are these stakeholders, and what are their expectations of the management?

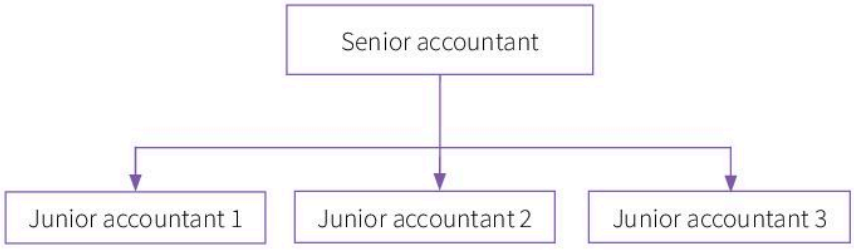
Government

Businesses are accountable to the government, and managers need to ensure that they abide by government rules, as well as provide the government with the required information and resources. For example, compliance officers must make sure that the company has effective policies and practices in place to comply with all government legislation, and must provide all required information to the government, such as output and pollution levels, etc.

2.3

Construct simple organisational charts

An organisational chart is a diagrammatic/pictorial representation of the flow of responsibility and authority in an organisation. It shows the roles of people in an organisation and the relationships between them. For example, the diagram below shows a simple organisational chart of a senior accountant in an organisation's accounting department, who has three junior accountants working for them.



Key term

Lines of authority: lines indicating who is senior to whom in terms of having more responsibility and power with regard to giving out instructions and decision-making.

Hierarchy: a system that organises people or things into levels of seniority or importance.

Every organisation can be set out in this way to show all the departments and how they link together. These organisational charts show the main **lines of authority**, the lines of decision-making (as well as lines of communication), and the levels of responsibility.

The term "role" refers to what an individual does in an organisation. For example, a sales manager will be in charge of the company's sales team. The sales manager's tasks will be to make sure that there is a clear sales plan, and that the sales team receives the right level of training and support. The sales manager will be responsible for people and resources, and for making sure that targets are met.

There are a number of organisational charts that can be used to set out the relationship between different departments and roles within an organisation, as outlined below.

Line organisational chart

A line organisational chart shows the **hierarchy** of different roles, and who reports to whom. Senior roles are shown at the top of the chart, and lines connect these to the more junior roles below.

The line managers in an organisation are those who are responsible for managing people directly below them. For example, in a company producing cars, the line management system would be the hierarchy of managers involved in the manufacturing process:

You can see how the line runs in a vertical direction, with the senior manager at the top and then each manager below reporting directly to the role above them (their line manager).

The key advantage of this type of organisational chart is that the hierarchy and therefore accountability is clear, and it helps to show the decision-making process as well as the reporting relationship. For example, the junior manager in saloon cars would take instruction from their production line manager, who in turn would ask for advice, support and permission from the local factory manager above them.

A key weakness of such a system is that it can create a tall structure, and each line on the organisational chart can become a **silo**, where it is separated from the others. This can limit flexibility or cross-department relationships. However, it is often important to take a wider view and for lines, groups or departments to work together, for example to allow the production line to learn from the marketing line.

Line and staff organisational chart

In many organisations, there is a combination of a line and staff organisational structure. It is common for some activities of specialist people in an organisation to cut across a linear structure. These people are often specialists who advise managers, and they often offer specialist services to more than one department. In most large companies, there is too much work for specialist line managers to do unaided. They need the help of workers who are specialists in their own field, such as legal executives, research engineers, IT professionals and so on.

For example, in the diagram below, the marketing manager, production manager and finance manager all report to the managing director. The managing director also works with staff specialists who provide valuable support services, for example a personal secretary and a legal advisor. The managing director does not usually have authority over

Key term

Silo: this term stems from a tower used to store grain. In business, it refers to the separation of one group of workers from the others, as a result of being allocated to a particular organisational line that is separated from other lines.

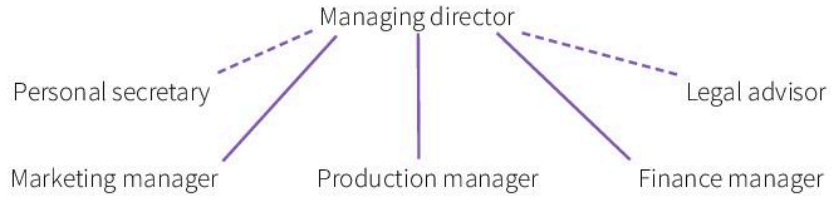
Tip

Make sure you can distinguish between line and staff responsibilities in an organisation. Line managers direct the work of subordinates and make important decisions. Staff managers advise those with line authority. Line managers are responsible for making sure that production and sales targets are met. Staff managers support them to achieve these goals.

Now try these

1. Draw an organisational chart for an organisation you are familiar with, for example your college or school. Distinguish between line and staff management in your diagram.
2. Who do you think benefits from an organisational chart? How would the organisational chart help them?
3. **Business in action**: Interview a teacher in your school or college. Ask who the teacher's line manager is and how they interact with each other (i.e. for what purposes). Then interview someone with a staff role in your school or college, for example an IT technician. Find out how he or she interacts with other members of the organisation. You might want to carry this activity out as a group with two other students.

these staff specialists, who often provide services to more than one department or member of senior management.

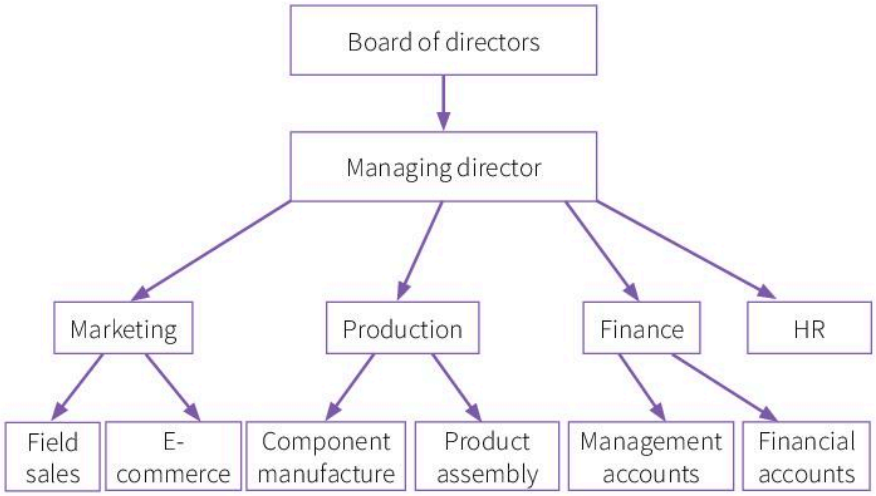


A solid line = line relationships, and a dashed line = staff relationships

The key advantage of this type of organisational chart is that access to specialist or technical advice is possible, and decision-making is improved. However, weaknesses include conflicts that may arise between staff managers and line managers in the execution of orders. Also, the complexity in understanding the reporting relationships may lead to problems for departmental collaboration.

Functional organisational chart

A functional organisational chart illustrates the key functional areas and lines of responsibility of an organisation. For example, in the diagram below there are four main functional areas in a manufacturing company. The production manager is responsible for two main subordinate managers (one responsible for component manufacture and the other for managing the final assembly lines). Similarly, the marketing manager has two key managers working under him/her, as does the finance manager.



Another type of organisational structure that exists in business organisations is an informal organisational structure. These are quite tricky to show in an organisational chart due to their nature. These types of structure are formed naturally and unofficially, and include informal groups and grapevine structures.

2.4

Interpret simple organisational charts

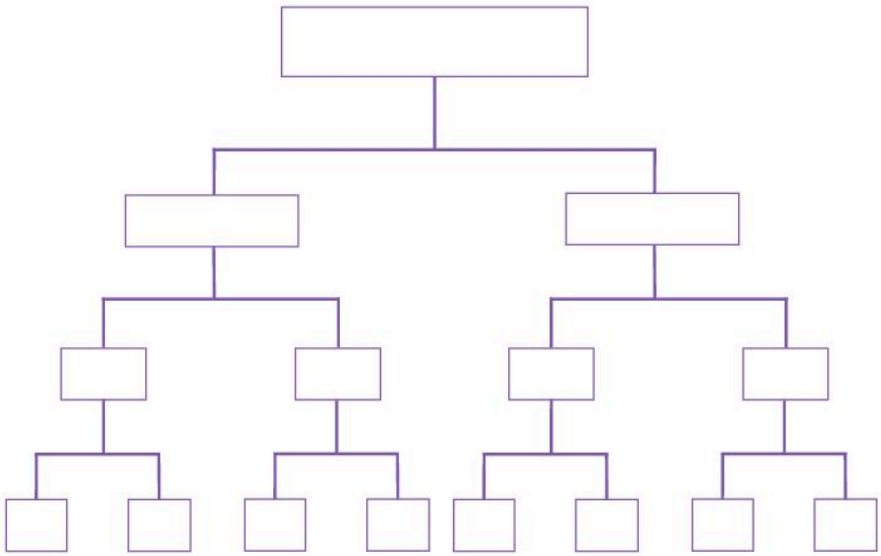
Chain of command

An organisational chart indicates the position and amount of responsibility that each role has within an organisation. The diagram to the right shows the hierarchy of an organisation (also referred to as the chain of command). The managing director and the senior management team are at the top level. At the next level are the middle managers. There are then junior managers, supervisors and, finally, operatives at the lower level. The diagram also illustrates the chain of command. Operatives are held accountable to supervisors, supervisors report to junior managers, and so on.

Typically, instructions and delegation are passed down the hierarchy, while information – for example about sales or output levels – is sent upwards. The taller the organisational structure, the longer the chain of command, thus slowing down communications. An organisation with many levels of hierarchy and narrow spans of control will have a long chain of command.

Span of control

The span of control of an individual is the number of people that he or she manages or supervises directly. The diagram below shows an organisation with a narrow span of control.



Choosing the best span of control means finding a balance between having control over the people below you (subordinates) and being able to trust those people. There is a limit to the number of people who can be supervised well by one person. A narrow span of control makes it possible to control people and to communicate with them closely.

Tip

When drawing an organisational chart, make sure you can identify the hierarchy or line of command, and identify the span of control of individual managers.

Key term

Tall organisation: an organisational structure in which there are many layers of management.

Flat organisation: an organisational structure in which most middle management roles have been eliminated.

However, the disadvantage is that this may lead to too many levels of management. This kind of **tall organisation** can be difficult to run.

In a **flat organisation**, managers delegate responsibility to subordinate staff. In this arrangement, managers need to have far more trust in their subordinates than is required in a tall organisation. Fewer managers are needed, and the hierarchy has fewer levels. For example, advertising agencies often give a lot of responsibility to their designers to come up with creative ideas. Designers will meet with clients and work on ideas themselves. This works well when the designer is comfortable with taking on responsibility and has good creative skills.

Some managers believe that the more senior that individuals are, the fewer people they should have in their direct span of control. However, there are many examples of organisations that work well when senior managers have an extensive span of control. The best span in an organisation will depend on the skills of its managers.

Several factors determine the span of control:

- The difficulty of the work: the more complex it is, the smaller the span of control is likely to be, so that the manager can supervise more closely.
- The training and motivation of the workforce: a well-trained and motivated workforce will require less control from senior managers, so a wider span of control is possible. In situations where individuals do not appear to be intrinsically motivated, managers will need to develop extrinsic ways of encouraging them to be motivated.
- Leadership style of the manager: if the manager is authoritarian and wants to control workers closely then a narrow span will be used. If the manager is more democratic or "laissez-faire" then a wider span of control is likely.

Now try these

1. Define the following terms:
   - (a) Span of control
   - (b) Hierarchy
   - (c) Chain of command
   - (d) Delegation
2. What are the benefits and disadvantages of having a large span of control within an organisation?
3. Some organisations are said to be "too hierarchical". What is meant by this, and why is it a problem?
4. **Business in action**: Interview someone who works for a medium- or large-sized organisation. Talk to him or her about the span of control of management. Does he or she work in a department in which a manager has a wide or narrow span of control? What does he or she see as being the benefits and drawbacks of having such a span of control?

2.5

Outline the essential characteristics of a good leader

There are various definitions of **leadership**. Many of them include the following features:

- exerting influence
- motivating and inspiring others
- helping team members or employees to realise their potential
- setting a good example
- encouraging team members or employees to achieve the organisation's goals
- showing good judgment
- performing management functions (plan, organise, delegate, direct, etc.) as required by management
- communicating effectively with employees and employers.

Various **character traits** have been associated with leadership. Good leaders are often able to take a "helicopter" perspective, meaning they can look down on a situation from above rather than getting lost in the details. The most important characteristics of effective leadership are outlined below.

Key term

Leadership: the action of leading.

Character traits: notable features of a person's character, for example trustworthiness, reliability, etc.

Characteristic	Description
Honesty and trustworthiness	A leader needs to have followers, so it is important that there is a belief in the integrity of the leader. A leader should be seen to make fair decisions, and should not be tainted by dishonesty or corruption. For example, many politicians lose credibility in the long term when their decisions seem to have been influenced by pressure from a small group, or they are accused of accepting bribes. An honest person is seen by followers as being worthy of following.
Focus	A good leader is able to focus on the key objectives of the organisation. Leadership is all about steering an organisation in a suitable direction, and therefore focus and clarity are required. It is often helpful for a leader to identify a small number of goals as being the main priorities, in order to focus the organisation on meeting these objectives, rather than allowing the message to be lost by outlining too many differing objectives.
Flexibility	Objectives should not be set in stone. The environment in which a business operates is subject to frequent change, and nowhere is this truer than when responding to changes in the market (for example, consumers want new products and as a result new competitors enter the market). The leader therefore needs to research and understand the business environment, and where necessary, adjust business objectives and the expectations of those who work for the organisation.
Making difficult but intelligent decisions	Sometimes a leader has to make difficult decisions, such as shutting down a plant or making existing jobs redundant, as well as promoting new people to management positions. The leader should recognise that there will be resistance from those who are set in their own ways and stand to lose out. A good leader cannot be popular with everyone, and has to recognise that, at times, he or she must make difficult decisions to take the organisation forward.

Now try these

1. Identify a political leader and a business leader in your country. Evaluate these two leaders (weigh up their strengths and weaknesses in terms of the list above showing the characteristics of a good leader). For each of the four characteristics in the table above, give each leader a score out of 10.
2. The table in this unit identified the most important characteristics of effective leadership.
   (a) Is there anything missing that you would like to add to the list of most important characteristics? Explain why.
   (b) Which of the characteristics listed do you believe to be the most important?

2.6

Discuss the different leadership styles

A democratic style of leadership

Leadership style refers to a leader's pattern of behaviour, and the ways in which leaders take decisions, manage change and deal with their staff. There are three main styles: autocratic, democratic and laissez-faire.

- Autocratic means making decisions by oneself. Autocratic leaders make decisions on their own, and then tell staff what to do and how to do it. This tightly controlled approach is sometimes called 'tell and do'. The autocratic manager will often provide clear instructions, but staff may be demotivated because there is little opportunity to share their own ideas. Autocratic leaders are usually inflexible and often operate by using threats, instilling fear and intimidating employees.
- Democratic means making decisions after considering everyone's ideas. In persuasive democratic management, a leader will make decisions and persuade the followers that these are the right

decisions. In consultative democratic management, the followers will have a lot of input into the discussion (i.e. they are "consulted"), even if the leader makes the final decisions. Democratic leaders are often referred to as participatory leaders. They often impact employees by giving job satisfaction, empowerment and a sense of teamwork.

- Laissez-faire is a French phrase which means "let (them) do (it)", and it is used to describe a loose management style. Managers create guidelines and objectives, but then leave staff to carry out the tasks themselves. This can be successful if the employees are motivated and are good decision-makers. However, it can lead to chaos if staff need strong direction from the manager and are unable, for various reasons, to make decisions themselves.
- Two further styles of leadership are charismatic and transformational. A charismatic leadership style is where the leader has a strong personality or charisma, and can influence others to follow. Transformational leadership is where employees are inspired to embrace changes in the organisation regardless of the consequences.

The table below summarises the main styles of leadership.

Leadership style	Advantages	Disadvantages
Autocratic	• Rapid decision-making – no time is wasted • Good for the armed forces and emergency services, as there is fast one-way communication • In times of rapid change or crisis, decisive action might be needed by the leader to limit damage to the business	• Demotivates workers who want to contribute and accept responsibility • Decisions do not benefit from workers' knowledge and experience
Democratic	• Makes use of many ideas; involves consultation about decision-making • Two-way communication is used, which allows feedback from workers • Job enrichment is more likely to be achieved	• Consultation with staff can be time-consuming and limits quick decision-making • Some issues might be too sensitive to discuss democratically (e.g. job losses) or too secret (e.g. the development of new products)
Laissez-faire	• Employees have freedom to manage their own work within given guidelines • Little (if any) management supervision; provides job enrichment • Feedback on progress towards agreed targets helps to motivate workers • Used when teams include very experienced and self-motivated staff and when creativity is crucial to success, e.g. scientific research or advertising agencies	• Ineffective if it is used as a result of weak managers not exerting control when it might be needed • Lack of clarity can lead to low motivation and disagreements
Charismatic	• Employees develop loyalty to the leader	• A strong personality may negatively coerce employees to commit illegal activities or breach operating guidelines
Transformational	• Teamwork is encouraged as everyone works towards a common goal	• The decision-making process may be slow and time consuming

Good leaders match their style to the needs of different situations. They may be autocratic when urgent action is required, and democratic when it is advantageous to involve others in the decision-making process.

Some organisations are more suited to particular styles. For example, in an advertising agency, it is helpful to share ideas between lots of people, so democratic or laissez-faire styles can be best. Where decisions have to be made quickly and to a set pattern, a more autocratic style is more useful.

Now try these

1. In which of the following situations do you think an autocratic, democratic or laissez-faire leader would be most suitable?
   - (a) Chief of a lifeboat rescue service.
   - (b) Head teacher or principal of a school.
   - (c) Leader of a design team in a manufacturing company.
   - (d) Head chef in a restaurant.
   - (e) Principal surgeon in a medical team.
2. With which type of leadership styles would you associate the following problems?
   - (a) Employees are demotivated because they feel there is little room for them to think for themselves.
   - (b) Employees are demotivated because they feel they are not being led or directed properly.
   - (c) Employees are demotivated because it is taking too long to arrive at decisions.
   - (d) Employees are demotivated because they feel they are having to make too many decisions themselves.

2.7

Identify potential sources of conflict within an organisation

Good managers must learn how to manage internal conflict, as it will inevitably arise within an organisation. There are two main categories of conflict: positive and negative.

Positive conflict

Positive conflict occurs when there are disagreements about how a business should progress (for example over what products to make next), and there are clear and open communication channels for airing these disagreements. Good managers will encourage the sharing of

ideas, for example by holding meetings where employees can voice their opinions, by encouraging suggestions (such as through suggestion boxes), and by talking to people to find out their ideas. Ideas can then be voiced, and disagreements and counter-arguments considered until a shared consensus is reached about moving forwards. The emphasis is very much on presenting arguments, finding out what the facts are, and looking at alternatives. Positive conflict is a powerful way of helping an organisation to move forward.

Negative conflict

Negative conflict occurs when there are open disagreements that lead to unpleasantness, and a failure to arrive at commonly shared plans for achieving an organisation's goals. Negative conflict tends to focus on personal differences and personalities rather than on logical decision-making. Negative conflict results in a failure to arrive at agreed decisions, increased tension, anger and stress. If negative conflict is common, then the organisation will tend to struggle.

Internal conflict

There are a number of sources of internal conflict within an organisation. These include:

- Poor working conditions: if conditions are unsafe and unhealthy, and rewards and pay are low, then there is likely to be conflict between managers and the workforce.
- A need to change the way the organisation operates: organisations that have been around for a long time may become set in their ways. Managers become used to managing in a certain way, and may not understand the need for change. For example, in recent years, many firms in the Caribbean have needed to employ new technologies including computerised management of stock and the development of e-commerce, etc. Conflict then arises between those who can see the benefits of new ways of operating, and those who want to continue to do things in the old way.
- Conflict between different functional areas in an organisation: conflicts may arise between different departments, particularly if there is a breakdown in communication. Conflict is often caused by clashing priorities and the poor interpersonal skills of one or many managers/employees. For example, production managers may want to do things with a production focus, such as making the best use of production resources. In contrast, the marketing department may want to focus on the market, for example by giving priority to consumer insights (what consumers want). However, the accounting department may want to focus on methods that minimise costs and maximise revenues.

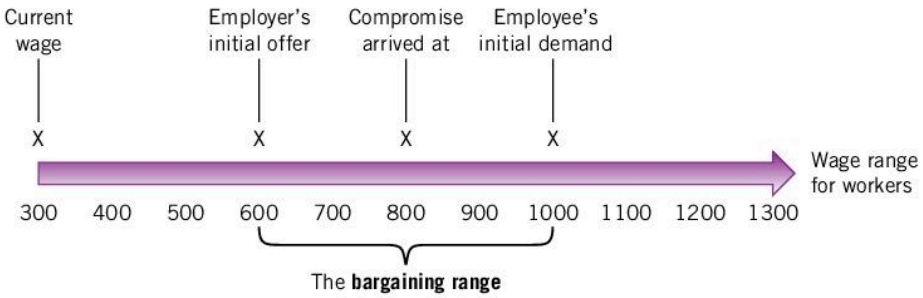
Now try these

1. Identify a source of internal conflict in an organisation that you are familiar with, for example a sports club or a place of work. How did the managers handle this conflict? What did they do well? What could they have done better?
2. Identify a situation where you believe there was positive/negative conflict. Describe this situation. How did the positive/negative conflict help/hinder decision-making and the people in the group?
3. **Business in action**: Working in a small team, make a checklist for reducing negative conflict and encouraging positive conflict.

2.8

Outline strategies used by employers and employees to gain an upper hand during periods of conflict

One key area that can cause conflict between employers and groups of employees is disagreement about the level of wages. The diagram below shows how potential differences arise when employees want more wages than employers are at first willing to offer.



Key term

Bargaining range: the spread between the employer's ideal solution to a conflict issue and the employee's ideal solution to the issue.

Trade union: an association of employees that has been formed to protect and promote the interests of its members, and to achieve other jointly agreed aims.

Scab: someone who is recruited to replace a striking worker.

The bargaining will take place between the employer's representatives and professional **trade union** representatives, and this will hopefully achieve an agreement that is beneficial to both parties.

Employer strategies

Employers have a number of strategies or bargaining tools available to them during periods of conflict, including those outlined below.

Lock outs: A lock out occurs when the employer closes down part or all of an organisation, or suspends the employment of some or all of the workforce, until the workers come back to work on the employer's terms. Employers need to be very careful when using this strategy, to make sure their action does not contravene the contract of employment (legal terms of employment) of the employees concerned.

A picket line designed to deter scab labourers and other workers from going to work

Scab labour: **Scab** labour is created when the employer brings in workers who are not part of the current workforce (or members of the workers' trade union) to carry out the work that was previously done by other workers. Typically, the "scab labour" will have to cross a picket line in order to come into work. The picket line is a cordon organised by previous or existing workers of an organisation, designed to deter other workers from going into work.

Public relations: An employer can use the media to try to gain public support for its position in the dispute. This may put pressure on the union to settle for a compromise solution.

Threats of redundancies: Threatening redundancies would put pressure on the union to agree to a settlement of the dispute, but could also inflame opinions on the employees' side, and could be looked upon as "bullying". This would lead to poor publicity for the employer.

Changes of contract: Employers can threaten to or actually change terms and conditions of contracts of employment for trade union members. For example, new contracts may offer less pay and perks than previous ones. However, the employer would have to go through a legal process to make these changes.

Closure: Closure of the business or the factory/office where the industrial dispute is taking place would certainly solve the dispute! It would lead to redundancy for all of the workers, and no output and profit for the business owners. This is a very extreme measure and would only be threatened or used if the demands of the union would, if agreed to, lead to a serious loss being made by the business or factory anyway.

Employee strategies

Employees have a number of strategies available to them to increase their power during periods of conflict, including those outlined below.

Strike action: A strike occurs when a group of workers collectively stop working in order to gain concessions from their employer. They might strike because of what they consider to be low wages, poor conditions, or the victimisation and ill-treatment of part of the workforce.

Work to rule: Many jobs are supported by a set of rules and regulations. Many of these rules cannot be broken (for example for health and safety reasons). However, there are other rules that can be applied flexibly in order to help a business to run smoothly. The trade union in a company may ask its members to "work to rule" to slow down work processes, in order to get employers to grant other concessions (for example a pay increase). Once the concessions have been won, the union and employees may then go back to a more flexible approach to the "rules".

Go slow: This is a form of industrial action in which workers keep working but at the minimum pace demanded by their contract. Bonus payments may be lost by workers, but at busy times of the year this action can be very disruptive and costly for employers.

Overtime bans: Overtime bans are a type of industrial action in which workers refuse to work more than the contracted number of hours each week. During busy times of the year, this could lead to much lost output for the employer.

Tip

Make sure you can differentiate between and explain the various strategies that employers and employees use to gain an upper hand, for example striking and working to rule by employees, and the use of lock outs and scab labour by employers.

Now try these

1. Read through the various forms of union action listed in this unit. If you were a union leader seeking to put pressure on an employer to concede to a claim for higher wages, which of these methods would you prefer? What factors would limit your ability to apply such action?
2. What benefits would an employee gain from being a member of a trade union if he or she was working in a low-paid job in poor working conditions?
3. **Business in action**: Study a national newspaper and see if you can find an example of recent industrial conflict. Then answer the following questions.
   - **(a)** What was the cause of the conflict?
   - **(b)** Who were the two sides in the conflict?
   - **(c)** What industrial action was taken?
   - **(d)** What was the result of the conflict?

2.9

Describe strategies for the resolution of conflict within an organisation

Conflict resolution is the process used by management to arrive at a suitable position in which conflict is eradicated or reduced.

There are six key strategies for dealing with conflict resolution, as illustrated below.

There are usually two or more sides in a conflict situation. Where there are two parties, there is a tendency to take up one of the following positions, with differing results.

Position	Description
Accommodation	This is where one party allows the other party to prevail. There will be reasons for doing this, such as recognising that their own position is weak and untenable, believing that the issue is not worth the conflict, or accommodating with the view to making a later gain. The party who accommodates is the loser, while the other party is the winner (at least in the short term).
Competing	This occurs when both parties seek to get the better of the other. Inevitably one of the parties (perhaps the one with the weaker position) will lose out, while the other party will win.
Avoiding	This is where both parties try to pretend that there is not a conflict of interest. They do not discuss the situation, nor do they argue about it. In such situations, both parties will typically lose out because they are simply ignoring the conflict. This is a lose/lose situation.
Compromise	This involves both parties giving up something in order to make gains. Both parties will lose a bit, but hopefully will win more than they lose. An agreed compromise may feel relatively good to both parties.
Collaboration	This is the ideal way of resolving conflict, and involves working together to identify a joint solution. It requires good communication and joint problem-solving between the parties involved. For example, in reaching trade deals between Caribbean nations, the ideal situation is for parties to identify ways in which they can collaborate to the benefit of everyone in the Caribbean.

Strategies for dealing with conflict over labour issues

Managers need to think carefully about the best approach to apply when negotiating with employee representatives in relation to conflict at work. As explained above, the ideal situation will be one where there is collaboration between the two parties in order to achieve a win–win outcome for both sides.

Where it is not possible to arrive at an agreement, it is sensible to allow an independent "third party" to help the parties to find an agreed solution. There are two key approaches here.

- **Mediation**: This is an assisted negotiation process where a professional mediator is brought in to work with the two parties. The mediator will meet with each party independently in the first instance, to find out each party's position and their case. The mediator will then try to bring the two parties together in order to arrive at a mutually acceptable agreement. The nature of mediation is such that the recommendations of the mediator are not binding on either party; they are simply there to provide independence and to help in the resolution of conflict.
- **Arbitration**: An arbitrator is someone who is given the power (by the two conflicting parties) to recommend a solution to a problem, which is binding for both parties. In selecting an arbitrator, the two parties need to be confident that the arbitrator will arrive at a fair decision. The arbitrator will look for the best solution and not simply

a compromise. The ideal arbitration process is to take out personal issues and to focus on the hard facts that underpin a disagreement.

Trade union representation

A trade union is an association of employees that has been formed to protect and promote the interests of its members, and to achieve other jointly agreed aims. Trade unions are formed, financed and run by their members, who pay an annual subscription. They try to influence some of the decisions made by the owners and managers of a business, although they do not always succeed. They are able to exert more influence on an organisation if a high proportion of employees are trade union members.

Employees become members of a trade union by paying a fee to the union. The diagram below shows some of the aims of trade unions. You can see that the main aim is to secure the best possible conditions of work.

There are two main unions in Barbados. One is the Barbados Workers' Union (BWU), which represents workers in all areas of employment and negotiates with the management of companies in which their members work. It has about 25 000 members. The other is the National Union of Public Workers (NUPW), representing government workers and negotiating with government departments over wages and conditions. It has about 10 000 members. Other examples of trade unions found in the Caribbean include Bustamante Industrial Trade Union (BITU) in Jamaica, and Trinidad and Tobago Unified Teachers Association (TTUTA).

Negotiation: One of the purposes of a trade union is to negotiate (to discuss with employees). Talks take place between representatives of

the employees (union officials) and representatives of the employer. Both sides try to reach agreement on issues such as wage levels or conditions of employment (for example workplace safety or the number of hours worked). This negotiation can take place at a local level (such as within a factory) or at a national level, where the union represents all members of the trade union in the country.

Benefits of trade union membership: There are benefits of trade unions for both employees and employers.

Benefits of trade unions to workers	Benefits of trade unions to employers
• Collective bargaining by union representatives on behalf of workers gives "strength in unity". • Individual workers have very little bargaining power on their own. • Industrial action taken by all union members can be very effective. • Unions will support workers with legal advice if they feel they have been badly treated at work, or if the employer has broken employment laws.	• Negotiations over wages and working conditions can take place with a union representative rather than many individual workers, saving management time. • An agreement reached between employers and unions is more likely to be accepted by most workers (the union may encourage workers to accept the agreement to resolve the dispute). • Unions can provide an effective communication channel between managers and workers.

Procedures for solving grievances

A grievance at work occurs when an employee has complaints or concerns about work treatment, for example rates of pay or conditions of work. An employee will typically take up such a complaint by writing a letter, or asking for a meeting to discuss the issue. The employee should have an employee handbook, setting out procedures for dealing with grievances. Managers can deal with the complaint through informal talks, or formal talks at which minutes of the meeting are kept. The grievance may be subject to independent arbitration or mediation.

When there is an industrial dispute/action, there are various ways that the grievances can be solved, and a variety of the ways outlined above can be used. Often, the solution depends on what the actual grievance is. For example, if it is a grievance about the amount of holiday an employee gets, this can be solved internally without mediation, for example through a meeting with relevant managers and HR representatives. Other grievances may require external mediation and/or arbitration, such as the unfair dismissal of an employee or employees.

Now try these

1. What do you see as being the main difference between mediation and arbitration? Why might a trade union prefer arbitration to mediation?
2. What do you see as being the qualities of an acceptable arbitrator?
3. What do you understand by the term "grievance" in a work situation? Do you know someone who has had a grievance at work? Did he or she do anything about it? What could he or she have done?

2.10

Establish guidelines for the conduct of good management and staff relations in the workplace

The benefits of good relationships between employers and workers include:

- reduced risk of conflict between workers and employers
- high levels of motivation, productivity and employee efficiency

- improved communication, with workers raising positive ideas for how to improve the business.

All of these benefits are more likely to lead to increased motivation and productivity, and ultimately to higher profits. Good relations between managers and employees can be achieved in the following ways.

Establishing good communication with workers

In Unit 2.13 below (page 74), we explore the nature of organisational communication. Communication involves the giving and receiving of clear messages. Managers need to be able to communicate clear messages about what is expected of employees so that there is no confusion. Clear targets should be established and explained, and clear statements should set out what good performance looks like. In addition, managers need to be able to listen to the views of their workforce. They should listen very carefully to any grievances that employees may have, and also listen to suggestions made by employees that could lead to improved organisational performance.

Good communication involves managers:

- giving clear instructions to employees
- listening to complaints and suggestions from employees
- establishing clear objectives for employees.

Improving working conditions

Relationships between managers and staff will be much more effective when working conditions are good. There are minimum standards, established by health and safety legislation, to which businesses have to adhere (for example relating to temperature in the workplace, safe machinery, the maximum number of hours that can be worked, etc.). Good managers will go beyond this to identify the types of working conditions that employees consider to be reasonable and which support motivation, for example nice restroom facilities, a work canteen, social activities after work, etc.

Motivating workers

Most people want to do well-paid, interesting and enjoyable work. Job design is therefore very important, i.e. identifying and creating aspects of a job which make work meaningful and enjoyable. Good managers create opportunities for employees to develop themselves in a work context. An appraisal interview, for example, is an opportunity for a manager to sit down with a subordinate to identify what he or she is looking for at work and to provide suitable opportunities for personal development. The process of "job enrichment" involves building new and challenging aspects into a job, and including a greater variety of work tasks.

Practising good leadership

Employees want to be led by good leaders. They will have different views about what constitutes a good leader, but some of the things we have already identified as aspects of good leadership are:

- establishing clear goals and targets that are realistic and achievable
- communicating expectations and requirements in a clear way
- being approachable and listening to the concerns of employees
- being able to manage resources well (including people)
- creating and using good communication channels
- choosing collaboration and win-win strategies.

2.11

Identify strategies for motivating employees in a business

There are many different theories for how to motivate people. One famous theory was created by the psychologist Abraham Maslow, and it is called the "hierarchy of needs". This theory highlights certain needs which, when given, can help to motivate people, such as establishing a sense of safety, building self-esteem, and creating a sense of belonging. Businesses can use the knowledge from motivation theories such as Maslow's to implement strategies that can help to motivate their own employees.

Motivation strategies can be divided into financial and non-financial strategies. Some of these are outlined below.

Financial methods

Employees often receive a basic wage or salary. Many employees receive extra benefits on top of their basic wage, either as money or in some other form such as vouchers, gym membership, etc. Payment systems may include some form of bonus or incentive to encourage employees. The bonus payment might be for high-quality work or for completing a task ahead of schedule.

Not all employees receive a wage or salary. For example, salespeople may be paid on a commission basis (i.e. paid a percentage of the revenue or profit that they make selling the firm's products).

Payment schemes include the following:

- **Flat rate**: a set rate of pay based on a set number of hours, such as $300 for a 35-hour week. This is easy to calculate and administer, but it does not give the employee any incentive to work harder.
- **Time rate**: under a time-rate scheme, the worker receives a set rate per hour for a certain number of hours, and any hours worked above this set number are paid at an overtime rate. The overtime rate may be time-and-a-half (i.e. 150 per cent of the normal rate), or double time (i.e. 200 per cent of the normal rate).

Now try these

1. What additional factors (to those listed in this unit) could be included as ways of improving relationships between employers and employees?
2. What practical suggestions can you make for improving ways in which employees can be allowed and encouraged to communicate with managers and employers, in order to have their views better represented in the workplace?
3. **Business in action**: Create a leaflet for managers (just four pages) setting out some good practice suggestions for the conduct of effective relations with employees in the workplace.

How could you measure the output of a hairdresser?

- **Piece rate**: payment is made for each item produced that meets a given quality standard. This system is sometimes used in the textile and electronics industries. The advantage of such a scheme is that it encourages effort. However, it is not suitable for jobs that require time and care. In addition, the output of many jobs in service industries is impossible to measure accurately. For example, how could you measure the output of a teacher, dentist or hairdresser?
- **Bonus**: a bonus is paid as an additional encouragement to employees. It can be paid out of profits earned by the company as a result of employees' efforts and hard work. The bonus incentive encourages employees to keep up a high work rate.
- **Commission**: this is a payment made as a percentage of the sales that a salesperson has made. For example, in a retail store, an employee might receive 10 per cent of each sale made, or he or she may be paid an hourly rate plus 5 per cent commission on every sale made. The commission therefore acts as an incentive to sell more.
- **Performance rates**: these are a good way of encouraging high performance. An employee will be set targets to achieve, based on some form of work measurement. For example, a standard time may be set to do a particular task. An employee who meets the standard will receive a set rate of pay. For exceeding the target, the employee will receive additional payments. The higher the target reached, the higher the level of pay.
- **Profit sharing**: under a profit-sharing scheme, pay varies according to the level of profit a company makes. The organisation sets a target for profit. If profit reaches this target, or exceeds it, the organisation will either pay a set sum for each employee or it will calculate the pay as a percentage of each employee's salary. Schemes such as this recognise the importance of hard-working employees in helping companies to make higher profits. The profit-sharing reward will usually be in addition to other payment schemes.

The table below summarises the main benefits of each different payment scheme.

Payment scheme	Key benefit
Flat rate	Easy to calculate, cheap to run
Time rate	Encourages employees to work longer hours
Piece rate	Encourages employees to produce higher levels of output
Bonus	Rewards high levels of performance and can be targeted at high performers
Commission	Directly relates pay to sales made or other measures of output
Performance rate	Directly links pay to meeting or exceeding targets
Profit sharing	Helps employees to see the direct link between their own efforts and the company's profits

Non-financial methods

Fringe benefits are non-financial incentives given to employees. They can be used to attract employees into a particular job, and then to retain them in the company.

In designing fringe benefits, it is important to consider factors that are likely to be attractive. Subsidised or free housing is a strong incentive in city areas where accommodation is expensive and there are long waiting lists for houses. Some jobs may have accommodation provided, for example a dormitory or hostel for workers at a mine or factory. Some hotel workers are provided with accommodation at their place of work.

One incentive sometimes used is the payment of bursaries for higher education courses. In the Caribbean, education is highly regarded because it enables young people to go on to get higher-paid jobs. However, the cost of study – particularly overseas university study – can be high. There are a number of scholarships available from Caribbean governments and private enterprises. For example, since 2014 Grace Foods has given scholarships to Jamaican students to continue their education at universities, colleges and trade schools in the United States, Jamaica and Europe.

It makes sense for a company to identify the types of fringe benefits that will provide the greatest incentive. For example, in a rural area it may be sensible to offer senior employees the use of company cars. In a congested urban area, the employees may be more interested in subsidised use of public transport.

Fringe benefits are a cost to the company. Some may be a relatively low cost and may be related to the company's activity, for example company products may be subsidised. Many transport companies allow employees and their families to travel for free or at a very low price.

Some fringe benefits are intended to make employees feel good about working for their company. For example, tickets may be provided to sports events and concerts, and company away-days or short holidays to attractive locations may be offered. Fringe benefits may relate directly to the unsocial hours that some employees are expected to work, such as a free evening meal and taxi home for those working after a certain time. Some employees, such as sales representatives, may benefit from a petrol or car allowance.

Key term

Fringe benefits: non-financial incentives given to employees.

Tip

Make sure you can distinguish between financial and non-financial methods of motivation. Non-financial methods include job rotation, where employees are encouraged to experience a range of different job roles for more variety, and job enrichment, which involves increasing the challenges involved within a job. (Job enrichment should not be confused with job enlargement, where employees are given more of the same type of work to do). Non-financial methods typically involve fringe benefits as well as changes in the nature of the work itself.

Now try these

1. What types of financial reward schemes would be suitable in the following situations? Briefly justify your choice.
   (a) Firefighters.
   (b) Professional cricketers playing in a knockout cup, where it is hoped that they will reach the final.
   (c) Homeworkers who are producing textile garments for a supplier, who provides them with equipment and materials to produce high-quality textiles.
   (d) Shopworkers whose job is to put new goods onto the shelves.
2. A call centre sells insurance over the phone. The employees have been making several mistakes, and there is a high turnover of staff. The current payment system is flat rate. Suggest alternative payment systems that might encourage higher levels of employee performance. Explain the reasons for your suggestions.
3. A large, international confectionery company is seeking to develop reward schemes that encourage high performance. What types of fringe benefits could it create that would act as an incentive for high-performing employees?

2.12

Evaluate the role of teamwork in the success of an organisation

In the early 20th century, with the development of large-scale production, it was common practice for management to follow a "top down" approach. This was where managers gave instructions that workers were expected to follow (a "tell and do" management approach). The workforce was seen as part of the machinery. This approach was typified by the American car industry, where American industrialists such as Henry Ford (founder of the Ford Motor Company) led from the top. In the Caribbean, a similar approach was used on the sugar plantations.

However, many businesses today have moved beyond this approach, and there is far more emphasis on "teamwork". A team is a group of people who work together to achieve shared goals and objectives. There are many different types of team, for example a sales team, an accounts team, and teams of production-line workers.

Managers throughout the world have learned from Japanese approaches to teamwork, in particular with regard to the "quality circle". A quality circle is a relatively small group of people working as part of a larger production line. The quality circle has a facilitator who has overall responsibility for making sure that the quality circle runs smoothly, for example by providing resources for meetings as well as a time and place for meetings. At these meeting, members of the team

are encouraged to outline their ideas and plans for improving work processes and practices, ranging from small-scale recommendations to major changes in practice. It is recognised that everyone who is part of the team has some expertise which is valuable for sharing with others.

Definition of teamwork

Teamwork is the cooperative effort of a group of people who are working together to achieve results. These results are often more powerful or effective than results achieved by someone working autonomously without shared goals.

The key advantages and disadvantages of teamwork are outlined in the table below.

Tip

Make sure you can define teamwork, and you can explain the benefits as well as the drawbacks of it. You should be able to evaluate the effectiveness of using teamwork in a specific work context, for example in the production line of a car factory.

Advantages of teamwork	Disadvantages of teamwork
• Decisions involve inputs from a wider group compared to decisions made top down by management • More time can be allocated to the decision-making process • The team will have far more skills and experience than one person working alone • If all team members are involved in decision-making then they feel as if they have greater ownership of the decisions, and are much more likely to get behind the decisions and make sure they succeed • Any weaknesses in a plan can be highlighted through discussion • Teams can build things far more quickly than individuals	• Decisions may be arrived at more slowly because of the bigger range of inputs, which can be problematic where swift decision-making is required • Teamworking may give rise to more disagreement and opposition because more people are involved in the decision-making process • There is no clear central channel of authority, which gives more scope for conflict • In a team, hardworking members may feel that they are having to carry "lazier" ones, and may lose motivation if their rewards are linked to team results rather than individual results

Now try these

1. What practical steps can be taken to create a more powerful team? How do these steps involve the following?
   (a) Someone taking responsibility for team leadership.
   (b) Encouraging team members to contribute to team discussions.
   (c) Creating a sense of belonging to a team.
   What other aspects are required to make a team more effective?
2. Identify a situation where individuals are currently working independently but could benefit from working as a team. How could they be encouraged to work together? Make a list showing how they might benefit from working together, and what problems may arise.
3. **Business in action**: Identify a situation where you have recently been a team member. Identify a series of steps that could be employed to help the team work more effectively together. Suggest some of these ideas to your teammates. What response do you get?

2.13

Outline strategies for effective communication within an organisation

Communication (passing on or exchanging information, ideas or feelings) is vital to a business. Instructions, orders, lists and specifications all need to be transmitted to others within the organisation. The organisation also needs to communicate externally (to people outside it) to place orders, find things out and, very importantly, to promote and sell a brand and its related products.

The communication process and strategies for effective communication

Key term

Communication: the means of exchanging information.

Communication involves sending a message or messages to a receiver. The sender must select the best method of communication, such as oral, written or electronic. The sender must then select the best medium to send the message, such as email or telephone.

Communication takes place both within a business (internal) and between the business and other organisations (external). For example, internal communication might be used to give instructions to more junior colleagues. External communication might be used to give information to suppliers outside the business.

Effective communication depends on:

- clearly defining the objective of the message
- taking account of the needs, attitude and knowledge of the receiver
- being aware of how distractions ("noise") can distort the message
- selecting the best medium for communication
- checking through feedback that the message has been understood
- listening to feedback and responding.

The communication process is outlined below:

Sender (information, ideas, attitudes, desired action) → **Message** (encoded by the sender) → **Medium** (channel of communication) → **Message** (decoded by the receiver) → **Receiver** (understanding of the message and any action required)

Common communication problems

Communication problems create barriers in an organisation. There are a number of issues and consequences associated with poor communication, as shown below.

Message misunderstood → Inappropriate action taken or no action taken → Loss of business → Loss of competitive edge

Factors influencing poor communication	Description
Language	The sender may not be a good user of language, or may use jargon, unfamiliar technical language or abbreviations. Problems may arise if a receiver's first language is different from that of the sender. It is essential when creating a message to think about the needs of the receiver, and to be clear and direct.
Emotional state	The sender or receiver may be upset or angry, and set out a message poorly or fail to listen carefully to a message. Receivers may hear what they want to hear rather than what was actually said.
Communication method	The method chosen may be inappropriate for the receiver. For example, cellphone calls may break up or emails may not get through. In some countries or remote areas, Internet services may not be available. Some topics may be better handled in person than by phone.
Cultural differences	The receiver's interpretation of the message may be different due to a differing cultural experience and language. Organisations need to have a good understanding of the culture of the countries that they communicate with.

Solutions to communication failure

All employees in an organisation need to be aware of the importance of effective communication. This involves making them aware of the problems of poor communication, and familiarising them with the best communication methods through training. For example, when making an order over the phone, the amount of items requested may easily be misheard. In this instance it might be better to use written communication, such as emailing or filling in an order form.

Organisations need to have the right resources to enable effective communication. This involves investing in good communication technologies and making sure that employees know how and when to use different types of communication. Other solutions to communication failure include:

- the use of appropriate channels
- feedback such as suggestion boxes
- formal and informal meetings
- notices and bulletins to inform employees.

Tip

Make sure you can identify some of the key purposes of business communication, for example:

- providing information and making sales
- giving instructions
- confirming arrangements
- improving customer service
- public relations (PR).

Now try these

1. Identify a message that you have received recently which involved the communication process outlined in this unit. Then answer the following questions.
   - **(a)** Who was the sender?
   - **(b)** What was the original message?
   - **(c)** What was the medium of communication?
   - **(d)** How did you decode the message?
   - **(e)** Was your interpretation of the message the same as the sender's interpretation?
2. Identify a message that you either sent or received where the message was poorly communicated. What were the reasons for the poor communication? How could these communication issues have been improved?
3. **Business in action:** For an organisation of which you are a member, create a leaflet that identifies a checklist for effective communication between members of the organisation.

Develop your exam skills

PAPER 1

1. A 'tell and do' approach to leadership fits most closely with:
   - A Consultative leadership
   - B Autocratic leadership
   - C Laissez-faire leadership
   - D Democratic leadership

2. Employers and employees will appoint an arbitrator to resolve a work issue when:
   - A They are seeking suggestions rather than solutions to a conflict issue
   - B They feel that they are in a weak bargaining position
   - C An issue appears to have an easy resolution
   - D They can both trust the arbitrator to come up with a fair resolution

3. Which of the following is a non-financial work incentive?
   - A Bonus payments
   - B Time rates
   - C Fringe benefits
   - D Profit sharing

4. A key benefit of a teamwork approach is that:
   - A Decision-making may take longer
   - B More inputs and ideas can be put into the decision-making process
   - C Some weaker members may be carried by harder-working ones
   - D There is no central coordination to team processes

5. Which of the following is unlikely to be a trade union aim?
   - A To increase the bargaining power of management
   - B To secure better wages for members
   - C To provide benefits to trade union members
   - D To secure shorter working hours

6. Effective communication is most likely to be secured when:
   - A Messages are complex and confusing
   - B There are several channels for communicating messages
   - C There are a lot of steps involved in the communication process
   - D Noise occurs, limiting the receipt of the message

7. Performance-related pay aligns payment with:
   - A Results achieved by employees
   - B The number of hours worked
   - C The profits secured by the business
   - D Fringe benefits

8. The hierarchy in an organisational chart illustrates:
   - A The chain of command
   - B The span of control
   - C How flat the organisation is
   - D Who leads the organisation

9. A key aspect of the work of a trade union is:
   - A Negotiation
   - B Management
   - C Customer relations
   - D Administration of payment schemes

10. Autocratic leadership tends to be most effective when:
    - A Lots of views need to be considered
    - B Decisions need to be made quickly
    - C The leader does not have a lot of information
    - D Decisions require a lot of specialist complex inputs

PAPER 2

1. (a) Define the term "teamwork". **(2 marks)**
   (b) Explain the benefits of teamwork in the workplace. **(4 marks)**
   (c) Discuss the differences between three (3) leadership styles. **(4 marks)**

2. (a) Define the term "chain of command". **(2 marks)**
   (b) Explain one (1) strategy used by employers and one (1) strategy used by employees to gain an upper hand in conflict. **(4 marks)**
   (c) Distinguish between functions and responsibilities of management. **(4 marks)**

3. (a) What is a trade union and what is its purpose? **(2 marks)**
   (b) List two (2) benefits of trade unions to employers and two (2) benefits to workers. **(4 marks)**
   (c) Explain the difference between mediation and arbitration. **(4 marks)**

4. (a) Define the term "organisational chart". **(2 marks)**
   (b) Describe two (2) types of organisational chart. **(4 marks)**
   (c) Construct a simple line organisational chart for your school. **(4 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

3 Establishing a business

Setting the scene

Establishing Maria's business through planning

Maria Haines has always had a passion for art and design, so when she went to college she studied graphic design. It was during a work placement on her course that she produced a portfolio of shop signs for businesses in Bridgetown. When she showed these to some local business owners to get their feedback, a number of them commissioned her to produce shop signs and business signs for them. She decided to charge per hour worked and added material costs on to this. The money she received helped to pay for her university accommodation costs and food bills, as well as books and other important living costs.

Maria enjoyed the work and realised that, because of her skills, she had a viable business proposition which would make a useful sole-trader business. However, she knew that if the business was to be successful, she needed to produce a business plan to make sure that she had clear objectives and a unique selling proposition that would differentiate her from other signwriters, and she needed to check whether the profit she would make would provide her with a good standard of living.

Before she left college, Maria completed a 10-page business plan setting out the details of the business, with references from shops to which she had sold signs, an outline of her typical customers, and details of the equipment and materials she needed, as well as the rental charges for her premises. She worked out the costs of all of these things and identified the finances she would need to start up. She created a profit and loss account, setting out costs, receipts and estimated profits for the first two years of trading.

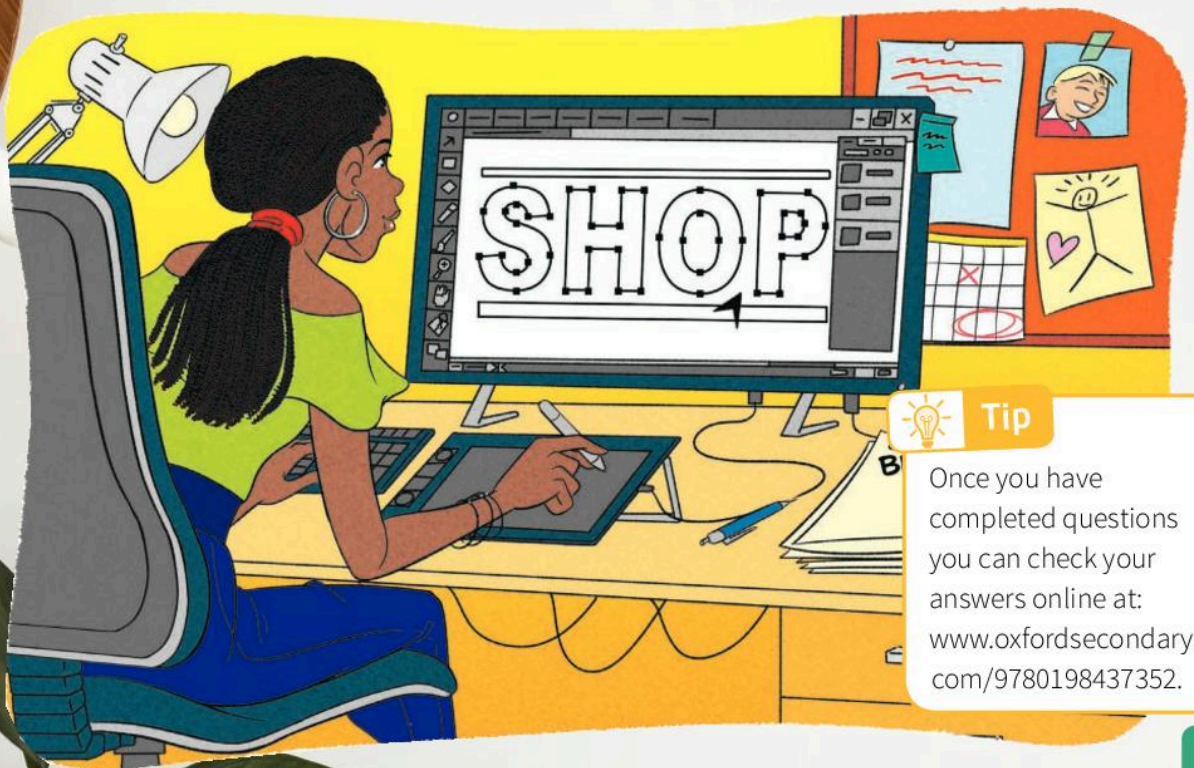
Maria took the business plan to a local bank in order to arrange to borrow some capital to start up her business. Maria recognised that she would be taking a risk in setting up her enterprise, but felt that the rewards would easily outweigh the risk taken.

1. To what extent was Maria taking a risk in setting up her enterprise?
2. How would the creation of the business plan have helped Maria to take some of the risk out of setting up her business?
3. For whom was the business plan made? Who else might have wanted to take a look at Maria's business plan?
4. Can you think of any other details that should have been included in the business plan?
5. What sources of information do you think Maria could have used to help her form her plan?

Objectives

After reading this chapter, you should be able to:

1. Define the term "entrepreneur" 80
2. Explain the functions of an entrepreneur 81
3. Identify the characteristics of the typical entrepreneur 83
4. Describe the role of the entrepreneur in the decision-making process 86
5. Outline the role of the entrepreneur in economic development 88
6. Outline reasons why an individual may want to establish a business 90
7. Outline the essential steps that should be taken in establishing a business 92
8. Identify the reasons for preparing a business plan 94
9. Describe the elements of a business plan 96
10. Identify sources of information for conducting research into the establishment of a business 99
11. Discuss the significance of conducting a feasibility study into the establishment of a business 101
12. Explain the relationship between planning and the operation of a business 102
13. Identify regulatory practices instituted by governments for the establishment and conduct of different types of business 103
14. Outline the factors that determine the location of a business 105
15. Explain the significance of collateral in accessing capital to establish a business 109



Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

Bill Gates, who was one of the co-founders of Microsoft, is one of the most famous entrepreneurs in the world

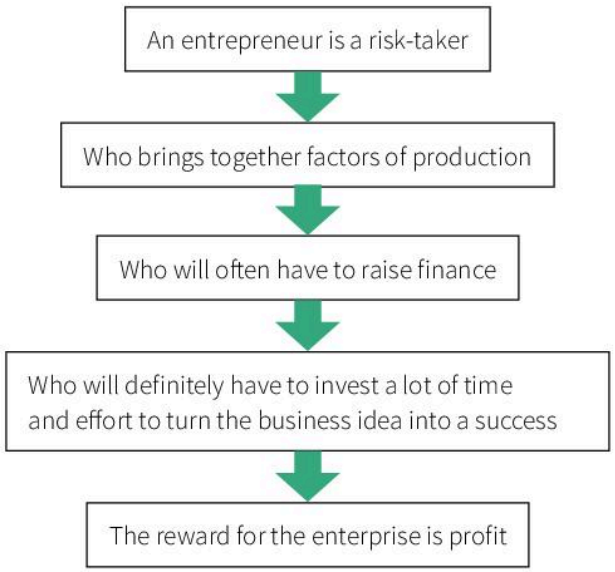
3.1

Define the term "entrepreneur"

An entrepreneur is someone who shows vision and creativity, and who takes risks by creating a business venture. Entrepreneurs can identify business opportunities, niches and gaps in the market. Many of the world's best-known enterprises started out from the idea of one person or a small number of people. Grace Foods was created by Dr John J Grace and Mr Fred William Kennedy; Microsoft was set up by Bill Gates and Paul Allen; and Madam CJ Walker (Sarah Breedlove) created the Madam CJ Walker Manufacturing Company, which originally focused on scalp conditioning treatments

One of the inspirations for Madam CJ Walker was that she personally suffered from a scalp condition, which led her to explore ways of enriching the scalp. The founders of Grace Foods, Microsoft and Walker Manufacturing all had the courage to set up businesses to develop their ideas and introduce their products to a wider market.

Today, there are thousands of small enterprises across the Caribbean that are being set up by entrepreneurs who have no guarantee of success. Many of these will succeed, but many will fail. An entrepreneur is therefore a risk-taker, who has to invest a lot of time and hard work into making their business a success. They have to bring together production resources (such as machinery, labour and land – even if this is in their own study or bedroom), and they may also have to borrow money to get started. The reward that the enterprise hopefully receives is a profit. Profits will rarely be made in the first year that an enterprise is set up, but they need to be made over time if the enterprise is to be a success.



Now try these

1. Do you consider yourself to be an entrepreneurial person (someone who is prepared to take a risk, and has creative ideas coupled with energy)?
2. Do you think that being an entrepreneur would be harder than working for someone else? Explain the reason for your answer.
3. **Business in action**: Identify an entrepreneur in your neighbourhood who has set up a small enterprise from scratch. What was the business idea? To what extent has the business grown and changed since it first set up? Perhaps you could interview the entrepreneur to find out what it was like to set up a new enterprise. Ask whether the entrepreneur was worried about the risk, from where he or she got the idea, and whether there are any plans for expansion.
4. Why do you think entrepreneurs set up in business despite the risk of making a loss?

Madam CJ Walker recognised that there was a market for hair treatments

3.2

Explain the functions of an entrepreneur

What does an entrepreneur do? The table of functions below shows that there are a number of complex tasks involved in being an effective entrepreneur.

Function	Description
Conceptualising	Creating a product concept is an important first step for any entrepreneur. Madam CJ Walker recognised that there was a market for hair treatments. She had some scalp issues herself, and talked to people about their own hair and scalp problems, and the solutions that they had tried. She also tried out a range of treatments herself, and the concept of her products began to take shape. The creation of a product concept has many stages, involving research to find the best solutions and products. There is a lot more to creating an enterprise than just coming up with a good idea for a product or service. An entrepreneur has also got to conceptualise what the business will look like. For example, will it be a small, local business servicing local needs, or one that will grow into a larger business? An entrepreneur also needs to conceptualise a name for the business and its products. The product that enabled Walker Manufacturing to take off in the early days was Madam Walker's Wonderful Hair Grower. Conceptualisation also involves developing a picture of who your customers are. For example, people who may be worried about hair loss or thinning hair, and what they are looking for in their hair products, so that the products can directly match their wants.
Planning	Planning is a key aspect of enterprise. A successful entrepreneur will only succeed if they can create well-structured plans, setting out **goals** and **objectives**, and the steps required to achieve these objectives. This often takes the form of a business plan (see Unit 3.8 on page 94), which sets out clear plans on paper or in a computer-generated document.

	Planning in an effective way requires research. Before setting up her own enterprise, Madam CJ Walker learned about the hairdressing business from her brothers, who were hairdressers. She also worked as a sales representative for a company selling hair-care products. She was therefore able to learn how to plan effectively to create a business that made use of mail-order selling, beauty parlours, and retail outlets selling hair-care products.
Accessing funds	An entrepreneur will need **funds** to test and develop new products, to carry out marketing activities, and to invest in plant and equipment. Madam CJ Walker built up a pool of capital through her own hard work. As people began to hear about her products, she was able to sell larger quantities, and to employ women to work as sales agents in the United States and Caribbean areas. Eventually, she had raised enough capital to invest in a factory in Indianapolis. Many entrepreneurs will borrow **start-up capital** from banks, as well as from friends and family. Others will use their own personal savings as a source of funding.
Organising	An entrepreneur needs to be organised. Alternatively, he or she needs to hire someone who is organised to manage the details of their business. In a business, you need to provide products that meet customer expectations, which are safe and delivered on time. You need to build a reputation for reliability, and you will only be able to do this by being organised. Organisation involves establishing patterns, procedures and deadlines. Even in the creative industries such as music and film, it is essential to be organised. For example, a recording artist will need to be at a recording studio at certain times, and to provide input or feedback on time to meet the requirements of the industry.
Operating a business	The operations of a business are the activities that it carries out to produce a product or service. For example, the operations of a small hotel will include booking in the guests, making sure their rooms are clean and ready for them on time, attending to their needs, managing any servicing issues (for example when showers break down), serving them food on time, dealing with complaints, etc. An entrepreneur needs to identify the essential operations of a business and make sure that these are run effectively. As part of operating a business, they will often need to take risks (which is a common characteristic of an entrepreneur).
Evaluating the performance of a business	Finally, the entrepreneur needs to **evaluate** "how effectively am I/is the business doing". Performance indicators are required to judge performance, for example room occupancy and customer satisfaction in a hotel. Madam CJ Walker would have kept details of repeat purchases by customers, orders received, sales made in different locations, etc. Evaluating performance makes it possible to identify what is working well and what is going less well, in order to make ongoing improvements.

Key term

Goals: the destination of a business activity. A goal is what you want to achieve in the end.

Objectives: these are specific and measurable results that a business wants to achieve in a specific time frame.

Funds: a sum of money made available for a specific purpose. Funds can be built up by saving or borrowing.

Start-up capital: money required to launch a new business.

Evaluate: to consider something in order to make a judgment, for example to consider what a business has achieved in order to judge how well it is doing.

Now try these

1. Why is conceptualising so important when starting to develop an enterprise, and how is it much more than just having a business idea?
2. In your opinion, what is the most important stage when transforming an enterprise concept into an operating business? Explain your answer.
3. If you were going to set up a small enterprise of your own, what sources would you use to acquire start-up capital?
4. **Business in action**: Set out a concept for a new enterprise that could be successful in your neighbourhood. Write it in the form of a flow chart or a spider diagram.

Tip

In explaining the functions of an entrepreneur, make sure you pay attention to the bearing of risks, and the entitlement to the profits and losses of the business.

3.3

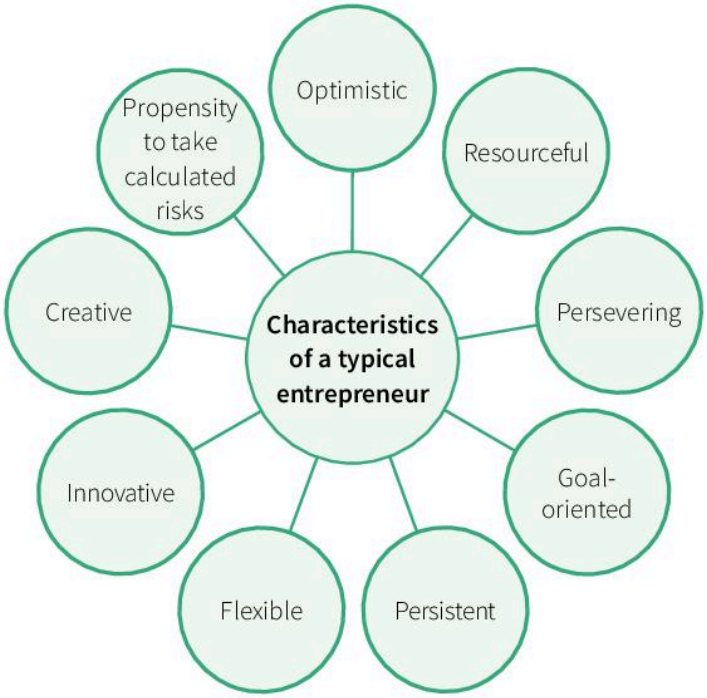
Identify the characteristics of the typical entrepreneur

Certain personal qualities and skills are needed if a new business venture is to be a success. We have seen that Madam CJ Walker was an entrepreneur who was tremendously hard-working; she had an idea and stuck to developing her business in a creative way. She was also able to build her business over time.

Madam CJ Walker therefore had many **personal traits** and leadership qualities associated with being a successful entrepreneur. Below are some of the characteristics that successful entrepreneurs tend to have.

Key term

Personal trait: a characteristic that is personal to an individual, for example an outgoing personality.



Key term

Creative: having imaginative or original ideas.

Creative

Entrepreneurs may not be 'inventors' in the traditional sense, but they all have a **creative** streak, in that they come up with great ideas. For example, Eddy Grant set up Ice Records in Barbados after a successful career as a musician and singer. Ice Records has a recording studio that can be hired by music producers. In addition, Grant combined this with the idea of buying the rights to a vast catalogue of Caribbean music.

Innovative

Creativity is the process of coming up with new ideas, and innovation is the process of turning these ideas into reality. For example, entrepreneur Satyan Sagramsingh, who is from Trinidad and Tobago, showed great innovation as he built up his very successful woodworking company, SLS Woodworking. He combined his interests in woodworking with his knowledge and research of information technology, sophisticated tools and equipment to build up his successful business.

Flexible

The business environment is always changing. This environment consists of factors that lie outside of the business itself, including customers, competitors, rules and regulations, and the actions of suppliers. An entrepreneur will constantly want to check on what is happening in this wider environment in order to make a suitable response. What do you do if a competitor alters its price or brings out a new product? What do you do if your customers change their habits or buying patterns? What do you do if you lose a supplier?

The answer to all of these questions is that you need to be flexible. An entrepreneur needs to come up with a suitable response swiftly. For example, if you are a recording studio, you need to identify new trends in music, because if you stay stuck in the same groove then you might find that people quickly lose interest in what you have to offer. Gordon 'Butch' Stewart is a good example of a flexible entrepreneur; his Jamaican business has sold everything from air conditioning units to hotel holidays.

Goal oriented

An entrepreneur needs to have clear goals to work towards so that he or she has a sense of direction. For example, Patrick Mitchell established Quashi surfboards in Jamaica. His goal was to provide custom-built surfboards using the best-quality materials. To meet

these goals, the boards were designed specifically for conditions in the Caribbean and the challenges of competing in surfing competitions worldwide. The boards were then built in Jamaica and tested all over the world.

Persistent

To persist means to keep on going in the face of discouragement or adversity. Success very rarely comes quickly or easily, therefore entrepreneurs need to be persistent if they want to succeed. Madam CJ Walker was born into a large family; she did menial jobs at the beginning of her career but she kept going, working hard and persisting in order to become more successful. She is famously quoted as saying, "I got my start by giving myself a start".

Persevering

To persevere means to stick at it. Another saying of Madam CJ Walker was, "Perseverance is my motto". She stuck at the task of building a business empire around her hair products. She also persevered to achieve more than simply setting up her own business. Madam CJ Walker was also able to empower lots of other women in her business. She hired them to sell her products, and she provided education for them to learn how to run their own businesses. She developed national conference structures including the National Beauty Culturists and Benevolent Association. Her legacy has therefore gone well beyond the creation of a powerful enterprise.

Propensity to take calculated risks

Propensity means a tendency to behave or act in a certain way. Someone who is 'entrepreneurial' will be willing to take **calculated risks**. A calculated risk is one where the risk-taker makes a realistic estimation of the likelihood of the venture being a success.

Profit is clearly an incentive to set up a business, but there is always a risk that the original idea will not succeed. Different people have differing attitudes to risk. Some are risk averse (reluctant to take a risk). In contrast, others will be risk tolerant (willing to take a risk). Of course, there are also some who are "risk lovers", who are too inclined towards risk-taking and fail to calculate the risks clearly. A successful entrepreneur needs to take risks that have been clearly calculated. One example is Appleton Rum from Jamaica, which has invested in building a new visitors' centre, weighing up the risk of spending money with the plan that the centre will in turn bring in more profits.

Tip

Make sure you can identify the characteristics of an effective/typical entrepreneur. When you do so, it may be helpful to use examples of well-known entrepreneurs to highlight how these characteristics contribute to someone being enterprising.

Key term

Propensity: a tendency to behave in a certain way, e.g. a propensity to take risks.

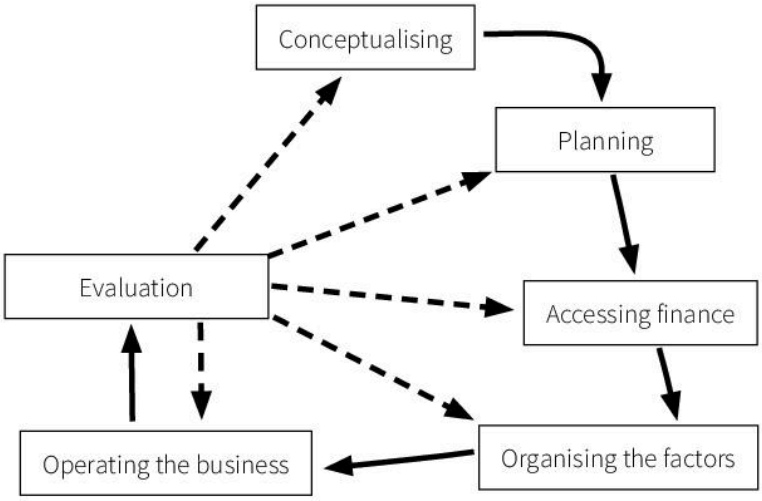
Calculated risk: a situation where there is a possibility that the outcome may be undesirable, but where the risk-taker is willing to take the risk because he or she has made a calculation of the likelihood of success or failure and believes that there is more chance of success.

Now try these

1. If you were going to set up an enterprise, what field would it be in? Do you think that you have the qualities to make the enterprise a success? To what extent do you have the following characteristics?
   - (a) Creativity.
   - (b) Innovation.
   - (c) Flexibility.
   - (d) Goal-orientation.
   - (e) Persistence.
   - (f) Ability to persevere.
   - (g) The propensity to take calculated risks.
2. Would you describe yourself as a risk-averse or risk-tolerant person? Give an example to illustrate your approach to risk, for example something you have done that illustrates whether you are risk averse or risk tolerant.
3. **Business in action**: Identify an entrepreneur who has been successful in your country. Carry out some research on the Internet to find out about his or her personal story. What does this tell you about the extent to which this person has been creative, innovative, flexible, goal-oriented, persistent and able to persevere?

3.4

Describe the role of the entrepreneur in the decision-making process



The role of the entrepreneur in the enterprise process

Entrepreneurs need to have good organisational and decision-making skills in order to put in place an effective decision-making process. These skills relate to being able to develop business concepts through planning, organising and operating an enterprise, and include the evaluation of how effective the enterprise is. The decision-making process is described below.

Conceptualising

A business concept is the idea for a business. It includes basic information

such as what the service/product will be, the target market (to whom the service/product will be sold), and the unique selling proposition (**USP**) that will enable the company and product to be successful. The USP should differentiate the company and its products from its rivals.

The starting point for an entrepreneur is to do lots of research and gain plenty of experience, so they can develop the business and product concepts from the outset.

Key term

USP: a unique selling point that distinguishes a product or service from others of a similar nature (such as coffee that gives a smoother and richer taste than rival products).

Planning

The planning process is the next stage, and goes much further than the original concept. The starting point should always be to assess whether the plan will succeed or not. If the plan is assessed as not being able to succeed, changes can be made and more research can be done to amend the plan so it is more likely to succeed.

The next stage is to establish a set of objectives for the business, so that the plan can be aligned with achieving these objectives. The plan should set out what needs to be done in order to achieve the objectives.

Plans need to have a time sequence of long-, medium- and short-term goals and activities associated with them. The term "planning horizon" refers to the time period for which a plan is constructed. The plan should set out the resources required and the personnel needed to meet each of the planning objectives.

Accessing financing

Once the entrepreneur has decided on the business idea or opportunity, the next task is to raise the necessary capital. In terms of securing finance for the business, the entrepreneur will need to find answers to a number of questions. The most important questions are as follows.

- How much finance is required? (In the short, medium and long term.)
- From where will this finance be accessed? (E.g. personal funds, shares, borrowing from a bank, etc.)

Tip

Make sure you can identify the sequence of activities involved in the enterprise process – from conceptualisation through to operating the business – and that you understand how evaluation feeds back into making improvements to the process.

Organising the factors of production

An entrepreneur needs to decide how to organise the factors of production. This involves identifying suitable combinations of land, machinery, equipment, materials and people. People may need to be trained to learn new skills, and the entrepreneur has important decisions to make about whether to purchase large, expensive units of capital (which will stretch business resources but may reap more benefits in the long term), or less expensive ones.

Now try these

1. In the diagram on page 86 showing the role of the entrepreneur in the enterprise process, there is a feedback loop from evaluation to each of the other roles. How and why is it important for the entrepreneur to evaluate on a regular basis the way in which he or she is performing the other roles?
2. How might a failure in one of the roles shown in the diagram on page 86 lead to the failure of the business? Give an example to show how this failure might come about.
3. **Business in action**: A friend has come up with the business idea of setting up a surf school during school vacation times using a small collection of surfboards that she already owns. Explain to her what roles she will need to perform if she is to convert this idea into a successful enterprise. What are likely to be the biggest hurdles?

Operating the business

All of the roles outlined above can be put into place prior to setting up and running the business (although things such as planning will need to be adjusted on an ongoing basis).

Once the business is ready to run, the next set of decisions that the entrepreneur needs to make revolves around operating the business. Everything that happens within a company to keep it running and earning money is referred to collectively as business operations. Running a business is a true test of the entrepreneur's ability as a business person. This will involve winning orders for products, meeting these orders on time, maintaining the quality of products, interacting with customers, creating payment systems, and keeping on top of finances and all other operations required to make the business profitable.

Evaluating

The entrepreneur needs to monitor and evaluate how effective business performance is on a regular basis. Questions to consider are as follows.

- How well are we doing?
- How are we performing against our original objectives?
- Are we keeping to plan?
- What could we be doing better?
- What are the major risks that we face?
- Do we need to adjust our objectives and plans?

One key way of evaluating business performance is to use metrics (numbers) to measure it. Obvious metrics relate to sales levels, sales revenue, profit figures, output levels, etc. Entrepreneurs must constantly evaluate these numbers as they take the important decisions that will drive their new business forward.

Risk-bearing

Fundamental to the role of the entrepreneur is the taking and management of risk. Bearing risks is inevitable for any entrepreneur, but by taking decisions based on detailed research and by planning for unforeseen events – such as new competitors entering the market – the risks should become manageable and the business will have a greater chance of success.

3.5

Outline the role of the entrepreneur in economic development

In 2016, Trinidad and Tobago published a national strategy document for the period 2016–2030. Included in this strategy was a long-term goal to create a "diversely educated, innovative and entrepreneurial population". The document recognised that a lack of a sufficiently

entrepreneurial approach was holding back economic development. Therefore, what part can enterprise and entrepreneurs play in economic development and nation building?

Collaborating

Entrepreneurs bring people together to work collaboratively to achieve shared objectives. The entrepreneur also brings resources together to achieve shared project objectives. For example, the owner of a small restaurant will work closely with chefs and the waiting staff to create a positive atmosphere that will encourage diners to visit. The restaurant owner will collaborate with suppliers to create a suitable supply chain of fresh products (such as meat and vegetables) to the restaurant. Other contributions will also be required, for example decorators, signwriters, creators and publishers of menus, etc. Groups of entrepreneurs may collaborate together, for example in organising markets and carnivals, as well as conferences to share ideas, and to discuss enterprise and the contribution that it can make to society.

Providing goods and services to satisfy citizens

Enterprise provides society with the products and services it needs. Where an entrepreneurial culture is widespread, citizens will benefit from the development of new and exciting products, such as new music acts, foodstuffs, cosmetics and many other new products. An entrepreneur listens carefully to the thoughts and feelings of consumers in order to provide the products and services that they want, and more choice and variety in what they can buy.

Creating jobs

As most new businesses start to grow they create job vacancies, and this offers more employment opportunities for citizens. A 2016 survey on the state of small businesses in Barbados by the Small Business Association found that 92 per cent of all formal enterprises employed between 5 and 25 employees. These enterprises are particularly important in retail, real estate (property management) and manufacturing, as well as in agriculture. There were over 10 000 businesses that could be classified as small- or medium-sized enterprises, providing most of the private sector jobs in the economy.

Contributing to nation building

Since 2007, the National Commerce Bank in Jamaica has been giving awards to small enterprises that contribute significantly to the development of the Jamaican community. These awards are called the Nation Builder Awards.

Enterprise contributes to the development of a nation in many ways, not just by providing products and creating jobs. In addition, nation-building

enterprises prioritise solutions that are kind to the environment, provide sponsorship and employee time for charitable events and causes, and get involved in the life of the community (for example by offering school projects, and helping the homeless and destitute).

The output produced and sold by new businesses increases gross domestic product (GDP) and helps to increase living standards (GDP per capita). Businesses that supply materials and services to entrepreneurs will gain increased trade, allowing them to provide more jobs and incomes too. Some new businesses will also sell their products to other countries, and this will improve the country's balance of trade and foreign currency reserves. All of these gains help to build the strength of the nation.

Earning foreign exchange

Much of the Caribbean economy relies on foreign exchange. This comes in a variety of ways, such as international business ties, tourism, etc. The opportunity to earn foreign exchange is therefore a very important role in development of business in the Caribbean.

Now try these

1. Identify an entrepreneur in your neighbourhood and make a list of the practical ways in which he or she is contributing to nation building. For example, how many people does the entrepreneur employ? Who are the customers and how are those customers being served? Are any of the goods or services exported?
2. The Caribbean is full of examples of successful entrepreneurs. Do some Internet research to find out about one or more of the following: Michael Lee-Chin, Sandra Marie Packer, Toni Thorne, William Andrew Boyle, Chadia Mathurin and Vince Cate.
3. **Business in action**: Can you identify an entrepreneur in your country who has made a major contribution to nation building by setting up an enterprise? Find out more about this person by talking to members of your community and researching on the Internet. Create a poster highlighting the achievements of this person as an entrepreneur.

3.6

Outline reasons why an individual may want to establish a business

Individuals set up businesses for many different reasons. For example, Madam CJ Walker saw an opportunity to create specific types of hair treatment to help others with scalp conditions like her own. She

wanted to build an enterprise out of her own efforts, and to give women opportunities to flourish in business. Someone else might set up an enterprise simply to earn a good living for themselves and their family. Some of the main reasons for setting up an enterprise are outlined below.

Financial independence

If you create a successful business then you do not have to work for anyone else. You operate your own business, and you are not dependent on anyone else for a wage or salary. You also have autonomy over the profit earned by the business. Success will also hopefully bring a healthy bank balance. Increased income leads to wealth creation, which is a motivator to most entrepreneurs.

Self-fulfilment

Self-fulfilment means doing something that makes you happy. This is particularly the case when entrepreneurs can turn an activity that they enjoy into a business proposition, for example the signwriter in the case study at the start of this unit, self-employed hairdressers who have always wanted to style hair, personal trainers who have always loved fitness and sports, etc.

Self-actualisation

Self-actualisation goes beyond self-fulfilment. This term is used by psychologists to define a personal state of doing something that meets the highest level of human needs. You will recognise the feeling when you do something or are involved in an activity that makes you feel on top of the world because you are able to express your innermost feelings and reach your full potential. This can be true for people in the creative fields, for example a music-based or design-based entrepreneur, but it also applies to people who love running a really effective business enterprise such as a successful restaurant or shop.

Key term

Self-actualisation: social psychologists use this term to refer to the achievement of one's full potential through creativity and independence.

Increased income

Really successful enterprises yield high incomes for their owners. When they are successful, entrepreneurs will typically make more income than they would being employed by someone else. They can also create employment for others through their business, including friends and family members as well as regular citizens. Increased income is an enabler for economic growth and development, providing revenue through taxation.

Increased control

A lot of entrepreneurs use the statement, "I like to be my own boss". There are many different aspects to this simple statement, including the following.

- I make my own decisions.
- I can choose to take one course of action rather than another.
- I can work my own hours.

Now try these

1. Can you identify a business opportunity that you could carry out to help you achieve self-actualisation?
2. Many entrepreneurs say they "like being their own boss". Would you like to be your own boss and why?
3. Identify some of the sacrifices that would be involved in setting up an enterprise.

- I can take holidays when I want them.
- I can choose to work harder, and the rewards are mine.

Of course, it is important to recognise that entrepreneurs make concessions if they want to be successful.

- They may have to work longer and harder.
- They may not be able to take holidays.
- The decisions they make will be limited by what other stakeholders want, for example suppliers, customers, etc.

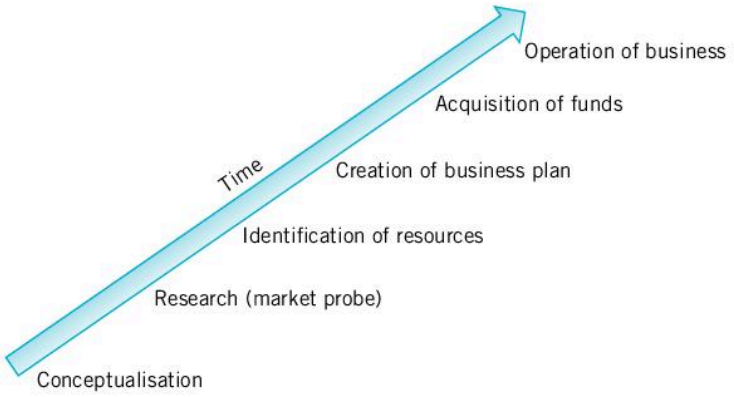
Therefore, entrepreneurs often have increased control over their working life, but they rarely retain full control.

3.7

Outline the essential steps that should be taken in establishing a business

If you are going to set up a new enterprise, it is helpful to have a clear picture of the essential steps that need to be taken. Although some of these steps can take place at the same time, they follow a logical order that can help when creating a plan to get a business up and running.

The six essential steps in establishing a business are as follows.



1: Conceptualisation

As discussed on page 86, the first step will be to come up with a business concept. This is the idea for the new business, with details such as what the business will look like initially (the size and type of business), the nature of products or services, a potential name and location for the business, etc.

2: Research (market probe)

Market research needs to be undertaken to identify customers and what they want, and to answer some important questions.

- What features of the product or service are customers looking for?
- Where do they want the product?

- How much are they prepared to pay?
- How strong is the competition and what are competitors offering that is similar?

3: Identification of resources (financial, human, material)

An entrepreneur needs to identify the key resources that will be required for the business. Financial resources may come in the form of shares, loans or cash, and an entrepreneur needs to decide from where this finance will come. There may also be financial implications with regard to how much cash and profit will need to be generated. For human resources, there are many questions that an entrepreneur needs to ask.

- What type of people do we need?
- How many people do we need?
- What skills and attributes should they have?
- Are we going to have to train them?

Details for material resources also need to be decided by a business owner, such as the type and quantity of materials needed, and the amount of capital items required (including buildings, machinery, fixtures and fittings). For these items, some entrepreneurs would want to purchase them outright, whereas others may prefer to acquire them on credit terms. Other resources needed may also include legal requirements such as licences, registrations, taxation, insurance, etc.

4: Creation of a business plan

Units 3.8 and 3.9 below outline the nature and purpose of a business plan. Planning helps to improve the chances of business success. The business plan will therefore include facts and research about the proposed business. An entrepreneur can share the plan with others who may contribute to the business, such as shareholders and providers of finance. Steps 1 to 3 above should be taken as part of the process of creating a detailed business plan.

The creation of a business plan should not be rushed. All the details of the plan need to be thoroughly worked out and researched, because the enterprise will need to make clear and well-planned decisions based on this plan. The details therefore need to be accurate. The plan should also give outside readers the view that this is a credible business.

5: Acquisition of funds

Once a detailed business plan has been created, the entrepreneur can try to acquire the necessary finance. This will consist of short-term finance (to pay for start-up costs such as the purchase of premises and equipment), as well as longer-term finance to expand the business. The business will only be well placed to secure finance once it can present a convincing business plan. The business plan can be shown

Tip

Make sure that you can see the logical progression from one step to the next in setting up a new business. Learn the order of the steps, i.e. concept, market research, identify resources, create a business plan, acquire funds and finally start to operate.

Now try these

1. Why is a market probe essential when setting up a business? What would be the dangers of not engaging with a market probe?
2. The six steps outlined in this section all take time. Which of the activities do you think you would have to allocate the most time to in setting up a business, and why?
3. Find an entrepreneur that you know, or one that your business teacher has invited to talk to you, and ask him or her which of the steps took the longest and why.

to banks and credit unions, and to potential partners, investors and even suppliers in order to secure the essential funds. Funds may also be obtained by borrowing from friends and family, or even from the owner's savings.

6: Operation of the business

Once the five steps outlined above have been effectively completed, then the business can start to operate. Of course, the initial phase may include equipping the business, employing staff, acquiring vehicles, doing up the premises, advertising the business and creating the production schedules. Once the set-up stages have been completed, the business can start to operate on an ongoing basis.

3.8

Identify the reasons for preparing a business plan

A **business plan** is a complete description of a business and its plans for the next one to three years. It explains what the business does (or what it will do if it is a new business), and describes the ideal customer (who will buy the product or service and why). The plan also provides **financial forecasts** and therefore demonstrates the overall viability of the business. It explains the finance available, and the future financial requirements. The reasons for producing a business plan are as follows.

Key term

Business plan: a formal written document setting out the objectives of a business, as well as key details about the intended future running of the business (such as marketing, financing and structuring). It is written for the owners and other stakeholders such as lenders.

Financial forecast: a projection of the expected financial position of a business in the future, and the results of operations and cash flows based on expected conditions.

To research the business idea

It is important to ensure that careful research is conducted into the feasibility of the business. There is no point in starting a business if the plan shows that it will fail. Producing research and sets of financial predictions is therefore very helpful. Some businesses will never make a profit, and this can be revealed by the forecasts in the business plan.

The business plan will help to identify all of the costs of running the business, and to ensure that the costs do not prove to be more in reality than the entrepreneur had anticipated. Careful research helps to reveal from the outset some of the unexpected problems that may be encountered. For example, it may not be possible to get planning permission for a business, the cost of premises and raw materials may be greater than expected, or it may not be possible to get a business loan.

To attract potential investors

In order to set up a business, it may be necessary to attract investors. An investor is someone who provides funds in return for a given share of the profits. The investor will typically become a part owner of the

business. Investors often invest in more than one business, therefore they will be used to appraising the effectiveness of a business and will know how to read a business plan. Investors may ask questions such as the following.

- How big is the market?
- What share of the market do you expect to gain?
- What are your expected sales (this year, next year and in two years' time)?
- What are your main costs?
- How much profit do your forecast?

All of these and other details should be set out in a clear way in the business plan.

To source financing

In addition to investors, the business may also want to access funds from banks and other lenders, for example in the form of a business loan or mortgage. Lenders want to know details such as the following.

- How much do you want to borrow?
- Over what time period will you be making repayments?
- What other borrowing do you have?
- How much income do you expect to make in the short, medium and long term?

Lenders are usually able to calculate using a computer program whether the borrower can afford to repay any loans granted (by inputting figures for borrowing/repayments and other cash outflows). A lender will also look at other aspects of the business plan to make sure that it gives a positive view of the business and its prospects.

To guide decision-making

There is a well-known saying which states "to fail to plan is to plan to fail". A plan provides a business owner with the guidelines needed when making business decisions. For example, a business plan might state that a new business intends to borrow $50 000 from a particular bank for start-up costs, that it will source raw materials from a particular supplier, that it will charge $x amount, and that it will use particular marketing channels. These are clear guidelines that give the business a sense of direction and show what needs to be done. Entrepreneurs and managers should therefore follow this guidance in planning out the operations of the business. Of course there should be flexibility within this, but the business plan provides a clear outline of what to do.

Tip

You should be able to demonstrate that a business plan is fundamental to making a business a success, and be able to identify the key ingredients of such a plan.

Now try these

1. In this unit, we have seen that a business plan is a "complete plan" covering a period of one to three years. Why do you think that it is necessary to plan so far ahead? What would be the pitfalls associated with not taking this forward view?
2. What do you think potential investors and lenders might particularly be looking to examine in a business plan? What might dissuade them from investing?
3. Some entrepreneurs are over-optimistic in setting out a business plan. Which aspects of the business plan do you think they are most likely to exaggerate?

Key term

Executive summary: this is also called a management summary, and it is a short part of a longer document that summarises the key content of the main document.

Operational plan: this sets out the day-to-day tasks that are required to run a business.

3.9

Describe the elements of a business plan

A well-structured business plan will include the following elements.

A business plan set out in this way starts with a brief overview, then gives details of how the business will be structured. It then highlights the business idea before moving on to the marketing and financial aspects. (In some business plans, the 'operational plan' and the 'business opportunity' may be presented the other way round.)

The different aspects of a business plan are discussed in more detail below.

Executive summary

The **executive summary** is a very important element of the business plan. It is a brief overview of the key features within the business plan. This section should give some information about the owner(s), including their educational background and their previous work experience. It should also include the name and addresses of two referees. It is usually the last section of the plan to be written, even though it is presented at the start of the plan.

Operational plan

The **operational plan** contains important details about the business and its objectives. These details give readers a clear picture of the proposed business and how it will run.

The plan will include details such as the name of the business and the address of its company offices. The legal structure of the business should also be set out, for example whether it is a partnership or a registered company, and whether the company has limited liability. If the company is a registered limited company, some details about the directors and their responsibilities will be helpful. There should also

be a list of the aims and objectives of the company, as well as the personnel, suppliers and equipment necessary.

This section of the business plan might be set out as shown in the Sunshine Fashion example here.

The operational plan will also contain information about:

- personnel (the number of employees and their particular specialisms)
- who the key suppliers are to the business, and how well relationships are developed with these suppliers
- any equipment used by the firm, and any additional equipment that is currently desired as part of the development plan.

Sunshine Fashion

Sunshine Fashion is a small, innovative fashion design and retail company operating from offices at 22a Arcadia Towers, Port of Spain. Sunshine Fashion has a small manufacturing and design studio based at Arcadia Towers and a retail outlet situated in Main Street. The company was set up by Lavinia Porteus, and is now a registered limited company with four key shareholders each with $10 000 of investment in the company. Lavinia Porteus is responsible for the design and manufacturing aspects of the business, while Josh Wilman manages the retail operations and online sales.

The aims and objectives of the business are to:

- Be the leading small fashion design and trend-setting women's clothes manufacturer in the Caribbean.
- Expand production facilities in order to upscale manufacturing to three key markets in the Caribbean over the next five years.
- Expand the number of retail outlets to three and build a strong online presence.

The business opportunity

Whereas the previous sections of the plan focused on broader aspects of the business, this section will focus on the specific products or services that the business offers. Readers of the business plan (such as those providing finance) need to have a clear picture of what the product or service has that makes it special and therefore worth financing. This section needs to explain what the product or service is and what makes it stand out. It needs to answer questions such as the following.

- What were the origins of the product idea?
- What are the features of the product?
- How will it be packaged?
- How will the product be developed?
- Does it need further development before it goes to market?

Marketing plan

This section will describe the market research that has been carried out and what it has revealed. It should also give details of prospective customers, such as how many there are, how much they would be prepared to pay, what distribution strategies will be used to reach them, etc. Owners should also include details of the competition in this section (who they are, how their product offering compares, how their prices compare, how they distribute their products), as well as the pricing strategies that will be employed, **demographic characteristics** of the target market and a **SWOT** analysis of competitors.

Key term

SWOT: stands for **s**trengths, **w**eaknesses (of a business and/or its products) and the **o**pportunities and **t**hreats that the business faces.

Demographic characteristics: the traits of the market population, e.g. whether customers are young or old, male or female, and whether they live in cities or rural areas.

Details should also be set out here showing how the business proposes to advertise and promote the product/service, as well as giving details of the likely costs to do this, so that a marketing budget can be estimated.

It is helpful if the marketing plan indicates what share of the market the company hopes to secure. For example, if a business hopes to win a 10 per cent share of the market within the first year, this would indicate that it is hoping to secure 10 per cent of all sales made in a particular market. By calculating the total sales value of a market, e.g. $1 000 000, this would mean that expected sales would be $100 000.

Financial forecast

The financial forecast should give an in-depth description of the finances predicted for the business, including:

- Sources of finance: this should give details of how the finance for the business is going to be raised. How much will come from savings/from the owners? How much will need to be borrowed?
- Sales: what are the expected sales, both in terms of numbers of sales and revenues received from sales?
- Costings: what are the expected costs of producing the product or service?
- Profit and loss forecasts: comparing expected sales revenues and expected costs will make it possible to forecast profit and/or loss levels.
- Cash-flow forecasts: a cash-flow forecast shows the starting balance of cash, any receipts of cash (inflows), any payments of cash (outflows), and closing balances of cash. The cash-flow forecast helps to identify periods when the firm may need to borrow in order to manage cash-flow imbalances.

Documents found in this section of the business plan may include sales forecast statements, sample cash-flow statements, income statements, etc.

Expansion

Finally, the business plan should give an indication of future plans. Does the owner want to keep on producing a steady output or is a dramatic expansion possible? Does the business intend to add to its product range? What kind of new competition is likely to emerge, and how will the business deal with it?

The first page of a typical business plan will look something like the example shown on the next page.

Spicy Foods
Seafront Avenue
Anguilla

31 January 2019

Executive Summary

The owners

The company will be structured as a limited partnership, owned by Ezekiel and Martha Williams. Ezekiel and Martha both have chartered accountancy qualifications and previously owned their own seafood restaurant.

The management

Spicy Foods will employ a professional kitchen manager and a chef to work under the direct supervision of Martha Williams. The business has already taken the steps to appoint Chris Chan to the position of chef. He is one of Anguilla's leading chefs.

Goals and objectives

- To become known as Anguilla's number one spice kitchen and restaurant, as well as training new chefs to give Anguilla a leading edge in the Caribbean for spicy chicken and other flavours.
- To break even in the first year and then to increase sales by 10 per cent year on year, leading to an incremental improvement in profits and cash flow year on year until 2024.

The product

- A restaurant which serves spicy jerk chicken with 'flavoursome' rice and peas.
- A training school for new chefs to create the 'authentic Anguillan taste'.

Now try these

1. Why do you think a business plan starts with an executive summary, rather than going into the more detailed aspects straight away?
2. What overall impression do you think a reader would want to gain from reading the operational plan of a business?
3. What do you think is the purpose of a marketing plan? As a reader of a marketing plan, what details in particular would you want to see?
4. **Business in action**: Ask your business teacher to obtain a real business plan from an entrepreneur. Identify the key headings that have gone into this plan.

3.10

Identify sources of information for conducting research into the establishment of businesses

Gathering information from primary sources involves using your own sources and carrying out your own research. Secondary information is taken from someone else's existing research.

The advantage of primary research is that the entrepreneur is personally aware of the reasons for gathering the data, and has direct experience of the actual gathering of the data. The data is also likely to be fresh (very recently collected). The advantage of secondary research is that it can be broader in extent, particularly if it has been collected by a large research company using large samples.

When people want to set up a business, they can draw on the following primary sources of information:

- Their own experience of doing something similar, for example working in someone else's business.

- Talking to someone who is already in business.
- Creating their own market-research questionnaires to find out about the market.
- Approaching financial institutions to enquire about borrowing finance.
- Creating their own 'pilot enterprise' to see how successful it is, for example by selling a product at a fair or carnival.

In addition, they can draw on the following sources of secondary information:

- Books and leaflets about starting up your own enterprise (for example *Doing Business in Barbados*, produced by the Barbados Chamber of Commerce and Industry).
- Government publications and information about starting up and running a business (for example *Starting a Business*, produced by the government of Barbados).
- Published market-research information about specific markets, produced by marketing agencies (although this can be expensive to acquire).
- Brochures and online information provided by financial institutions (such as banks) about setting up a business and how to borrow finance (for example leaflets produced by First Caribbean International Bank on how to get a business loan).
- Research published by the Scientific Research Council in Jamaica.

Tip

Make sure you can explain the main sources of information that an entrepreneur would use to create a business plan.

Now try these

1. Identify secondary sources of information that would be particularly helpful for new entrepreneurs in your country. Research this information by searching for local private websites, such as those produced by the chamber of commerce in your country, as well as government web pages that are relevant to establishing enterprises in your country.
2. Sonia has created a small enterprise providing sandwiches and cakes for special occasions. She is hoping to build her business into one that serves local functions and conferences in Kingston, Jamaica. What types of primary research could Sonia use to explore the possibility of expanding her business in this way?
3. Sonia is also considering using existing published research about the catering industry in Jamaica. What will be the benefits and drawbacks of using these secondary sources compared with doing primary research?
4. **Business in action**: Carry out some research in your library and online to identify sources of secondary information about the hotel industry in your country. List these sources.

3.11

Discuss the significance of conducting a feasibility study into the establishment of a business

A **feasibility** study is a piece of research to find out whether a business or project will work. It aims to identify the strengths and weaknesses of a proposal to see if it should go ahead. Therefore, if you have a business idea and a business plan, the next step is to carry out a feasibility study to establish whether your business is viable.

There are a number of reasons for carrying out a feasibility study, as outlined below.

Key term

Feasibility: capable of being done.

Viability: currently succeeding (making a profit) and likely to continue to be a success.

To ascertain the viability

The feasibility study should enable entrepreneurs to ascertain whether they should go ahead with launching a business, or in producing a product or service. If the study produces the result that a project is not viable at the current time then it should not go ahead. There are many reasons why an enterprise may not be viable:

- It is the wrong time, for example because the economy or the market is in a bad state.
- The entrepreneur has insufficient experience to make the enterprise a success.
- Insufficient finance is available to make the project work, and the business may soon run out of funds.

To identify the possible costs

One reason why many projects fail is because insufficient attention has been paid to identifying the costs. There are many types of business costs, and most new entrepreneurs are not aware of all of these, including:

- costs of materials
- costs of equipment
- costs of transport
- costs of power
- costs of borrowing (interest charges)
- costs of marketing
- seller costs
- costs of labour and other factors of production
- government costs (for example in the form of taxes).

A project may prove to be unfeasible not because of the overall level of costs, but because of the *timing* of the costs. For example, payments out may come earlier than expected, while payments in may come later than expected. A **viability** study therefore needs to identify how great each of the costs will be, and when these costs will be due for payment.

Now try these

1. Meenum is hoping to set up a business offering a sound system that can be used for all-night parties. The sound system will cost $20 000. She will hire out the sound system for $1 000 per event. However, she carried out some further research and found out that licensing laws prohibit music after 1 a.m. Meenum was only able to raise $10 000 of finance for her business, and her market research indicated that users would only be prepared to pay $500 per night. Explain why her original idea is neither viable nor feasible.
2. If Meenum is to create a viable financial plan for her business, what aspects of the plan might she need to alter?
3. **Business in action**: Interview someone who created a business plan that proved to be successful. How was he or she able to ensure that the business plan was viable?

To identify possible sources of finance

New entrepreneurs often assume that finance for their business will be easy to acquire, but this is not usually the case. Finance will only become available if financiers such as banks are able to see a detailed business plan which proves that repayments on loans can be made on time.

A feasibility study is therefore important because it clearly identifies proven sources of finance, how much finance will be available, when it will be available, and when repayments can be made. If any of these details are not viable then an entrepreneur will know that their business is not feasible.

3.12

Explain the relationship between planning and the operation of a business

Businesses need short-, medium- and long-term plans so that they know what needs to be done, and can think ahead to prepare the business for future events. Planning creates guidance for the future and provides something to compare actual performance against. Planning also helps an enterprise to chart the route it needs to take to achieve its goals.

Successful enterprise is built around creating these three types of plans. If a company only has a short-term plan, it will be constantly firefighting because there will be no clear sense of direction for the business, and no plans for tackling future problems.

Short-term planning

A short-term plan typically relates to what needs to be done within one year. It is concerned with creating the operating guidelines that will enable the business to achieve the results it wants to achieve within that year. It answers the question "How do we do it?" (for example, "How do we achieve the desired results?").

A short-term plan enables the business to make the best use of the limited resources it currently has available. It also enables the business to manage the risks with which it is faced (for example risks resulting from new competitor activity and changing customer perceptions). Short-term planning is often easier than long-term planning, as shorter periods are often more predictable.

Medium-term planning

A medium-term plan will be for a period of more than a year, and will seek to find more permanent solutions to short-term problems. It will provide actions that will help to achieve longer-term plans. For example, whereas a short-term plan may involve making the best use of the finance that is currently available, a medium-term plan will seek to identify ways of acquiring new sources of finance.

Long-term planning

A long-term plan will cover periods of four to five years and longer, and will involve ways of achieving the medium-term plans. The long-term plan will help to steer the company forwards in the direction that entrepreneurs and owners desire. This plan goes beyond setting up a business and starting out its operations, to look at creating a bigger picture and the means to achieve this picture in the longer term.

For example, there are many companies today in the Caribbean that supply and fit solar panels. They are able to create long-term plans which show there is a growing market, as renewable energy sources increasingly replace fossil fuels. While solar panels involve an outlay for installation, they prove to be very cost-effective in Caribbean countries that receive large amounts of sunshine. Solar panel companies are therefore able to create long-term plans that are highly persuasive, showing ongoing demand that increases over time.

The long-term plans of solar-panel companies benefit from a growing market for renewable energy

Now try these

1. Why do businesses need to create short-, medium- and long-term plans?
2. Is each of the following likely to be found in a short-, medium- or long-term plan?
   - **(a)** Details of the product promotion required to launch a new product.
   - **(b)** An outline of how the business will expand over a period of ten years.
   - **(c)** The business has already created an outline of how finance will be secured to set up the business but has created an additional plan for the period which goes beyond the first year and into the second year.
3. **Business in action**: For a local retail business, identify one detail that you think should be included in a short-term plan, one detail for a medium-term plan, and one detail for a long-term plan.

Tip

Make sure you can explain the differences between short-, medium- and long-term plans, and give examples of what should be included in each of these plans. You should also be able to show that there is some overlap between these plans.

3.13

Identify regulatory practices instituted by governments for the establishment and conduct of different types of businesses

Businesses operate within a framework of rules made by governments. Governments operate at a number of levels, as illustrated in the table below.

Level of government rule-making	Examples
Local rules	Made by local government, for example the governments of Barbuda and Antigua
Regional rules	Made by the regional government decision-making body. For example, CARICOM makes rules about the free movement of capital and labour etc. among member states.
Global rules	Made by groups of governments working together, for example the Rio Convention on Climate Change rules made by many governments

Local rules will cover issues such as the management of waste at a local level (for example regarding refuse collections from businesses), parking regulations for vehicles and zones where business activity is permitted, etc. Municipal rules are created by the municipal council in a large urban area, whereas village rules govern rural villages. In the Caribbean, the parish is an important local government division, and the parish council will be responsible for levying local business taxes and providing local services such as street cleaning. Although most Caribbean countries have parishes, not all have parish councils. Normally, the government makes the rules that govern the entire country.

National rules affecting business will be created at parliament level in a specific country, such as Barbados or Antigua and Barbuda etc. Regional rules govern the movement of labour within the Caribbean. Because of the various rules and treaties signed by the regional heads of government, it is difficult to refuse permission for nationals of other countries to live and work in countries other than their own. The following section looks at some of the most significant national government policies and laws that impact on enterprise.

Key term

Central bank: the government's bank. It oversees the running of the financial system in a particular country, and licences other banks to operate in that country.

Monetary policy: the deliberate alteration by the government of the quantity of money in the economy, and the price (interest rate) of borrowing or lending money.

Monetary and fiscal policies

A country's **central bank** provides financial and banking services for the country's government and commercial banking system. It also implements the government's **monetary policy** and issues currency.

The Central Bank of Barbados will lend money to other banks, and the interest rate it charges becomes the key interest rate in the economy; other banks set their interest rates similar to this rate. The CBB and other banks can support business by making more money available in Barbados, for example by circulating more money, and by reducing interest rates so that businesses and individuals can borrow money at a lower cost. Of course, the CBB should not increase the amount of money by too much or too quickly, otherwise people will lose confidence in the value of the national currency.

The government also impacts on business through fiscal policy. Fiscal policy relates to government spending and government taxation. The government collects taxes from business in the form of sales taxes (a tax that has to be paid on the sale of certain goods), and businesses also collect income tax on behalf of the government (taxes on employee wages). High taxes can act as a discouragement to business because taxes

can be seen as an additional business cost. Businesses might complain that a chunk of their profits has to be paid to the government in taxes.

The other side of fiscal policy is the government's expenditure on services which businesses benefit from, such as road and railway links, bridges and ferries, street lighting and healthcare. Businesses also benefit when governments purchase their products/services, such as new pipes for water systems.

Consumer protection agencies

The government sets up consumer protection agencies to protect consumers against unfair business practices. Such practices might include providing inaccurate weights and measures of goods, offering goods that are unfit for sale, selling products that are harmful to consumers, unfair advertising, and so on.

For example, in Guyana, the Consumer Affairs Division (CAD) is a government department specifically set up for the protection of consumers. Businesses benefit from such agencies in that they create standards and rules to be followed so that consumers can have confidence in legitimate traders, and businesses that break the rules can be punished in the courts.

Environmental policies

National governments establish environment agencies that are responsible for creating rules relating to the environment, and then monitoring how effectively these rules are being applied. The environment agency will prosecute businesses and individuals who flout these environmental regulations.

For example, in Jamaica, the National Environment and Planning Agency regularly creates reports on the state of the environment in the country, as well as creating rules governing issues such as water and air pollution. There are very tight regulations about how businesses can create, manage and get rid of waste.

Intergovernmental agreements

Intergovernmental agreements between groups of countries are particularly important in the Caribbean, including the creation of policies and rules on fishing, the environment and the use of ocean resources, as well as in the creation of rules on trading.

Now try these

1. Regulations are rules created at a local, regional and national level. Why do there need to be rules governing business behaviour?
2. **Business in action**: Can you identify any additional rules that are made at a local or national level which impact on business and are not explained in this unit? What are these rules, and what aspects of business behaviour do they seek to regulate?

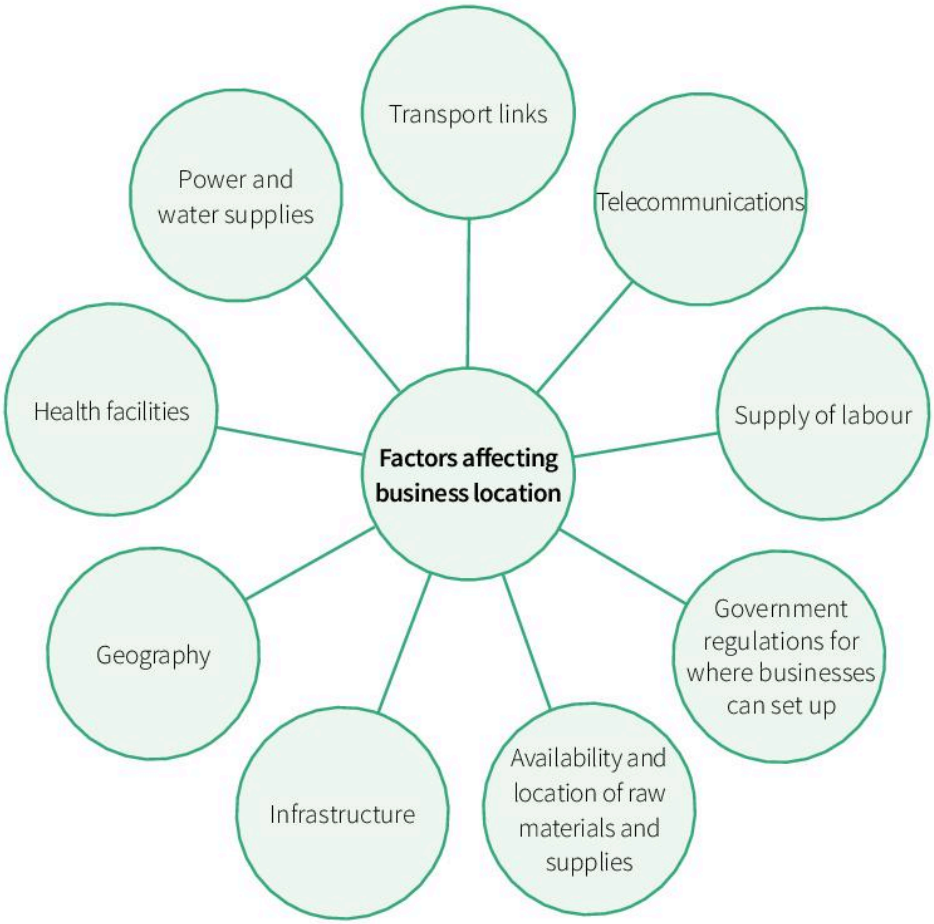
3.14

Outline the factors that determine the location of a business

One important consideration for a new business is its location, i.e. where the business should be situated. Considerations may involve being close to the market, building on sites where costs are low, or

perhaps choosing an area where labour is plentiful and wages are cheap. Later on, a firm may choose to relocate, often because costs have become too high at the original location.

Factors affecting the location of a business are outlined below.



Geography

Key geographical features that dictate whether a location is good for a business include the following.

- Natural features (the terrain of the land, the availability of water supplies, etc.).
- Population (the size of the local population, the age structure of the local population, and other demographic factors).
- The industries that already exist in a region (suppliers, competitors, etc.).

Many businesses need to be located close to their market and their customers. For example, many manufacturing industries locate close to their market, particularly if they produce bulky or fragile items that are expensive to transport.

Service industries such as hairdressers, restaurants and entertainment need to be near to customers because customers will be travelling to

them. Other services such as banking and insurance also sometimes need to be near to customers, although many transactions are now carried out online. Another significant geographical factor is the climate, particularly if it is very hot or cold or frequently windy, or there is a lot of rain or snow, as this can affect the production and movement of resources.

Availability and location of raw materials and supplies

Some manufacturing businesses use a lot of heavy, bulky raw materials to make their products, even though the end product is smaller and lighter. For example, finished steel is a lot lighter than the ore, limestone and other materials of which it consists. If the raw materials are bulky and expensive to transport, it makes sense to locate near their source.

Infrastructure

Infrastructure refers to the key physical and organisational structures and facilities (such as buildings, power supplies and roads) needed for the operation of a business. Businesses require access to electricity supplies for lighting and heating, and good transport links for employees to get to work, for supplies to reach the company and for goods to get to market. In addition, businesses will either need to buy premises or rent them, so the availability of suitable buildings in an area is very important.

Power and water supplies

A business must consider five standard utilities: gas, electricity, water, waste disposal and drainage. Power is particularly important in manufacturing, but it can also be important for large service organisations such as banks and insurance companies. Industries such as food preparation and paper production use large quantities of water. Food processing creates waste, and the cost of waste disposal will affect the choice of location.

Telecommunications

Businesses need a strong communication system. This is particularly important in the Caribbean, where many companies trade and communicate globally. It is therefore important to set up in areas where communications are clear and reliable. This might exclude some mountainous or highland areas, or countries where the telecommunication links do not exist. Cities with excellent wireless and broadband facilities can be attractive for new businesses.

Transport links

Two major influences on transport costs are the type of raw materials used by the business, and how near the business is to its market. Transport costs will also be affected by whether the industry is "bulk

Tip

Make sure you can give regional examples of how various factors have impacted on the location of an industry. For example, eco-tourism in the Caribbean requires unspoiled seas and beaches and simple accommodation, whereas mass tourism requires airports and large hotels. The oil industry in Trinidad is located offshore, as this is where oil reserves can be found. IT businesses have developed in countries with good telecommunications, such as Barbados.

increasing" or "bulk decreasing" (i.e. whether the goods become larger and heavier or smaller and lighter as they are assembled). Businesses that use heavy and bulky raw materials – such as steel-making and sugar-refining – will incur high transport costs if suppliers are a long way from the steel plant or sugar refinery. Many businesses (such as hotels and factories) set up close to good transport links, for example near a major road junction, rail station or airport, as this means they are conveniently located for customers.

Health facilities

A health facility is any location where healthcare is provided, for example a doctor's surgery or hospital. Good healthcare facilities are an important aspect of business, particularly for industries that are more likely to result in accidents and injury (for example mining and farming). Employers also benefit from having easy access to health facilities to keep a workforce healthy and capable of effective work. For example, if employees need to visit a clinic then it is helpful if they can visit the doctor quickly and then return to work.

Supply of labour

Labour and skills are more readily available in some areas than others, and this will be an important factor for most businesses when they choose their location. If businesses want a large pool of cheap labour, they might set up in areas where there are not many existing employers. If they want skilled labour, they will need to set up where they are most likely to find those skills.

Government regulations

Government regulation can have a major impact on a business's location. For example, in some areas of the Caribbean, there is relatively little regulation (rules, laws and taxes), and some businesses locate to these areas as a result, for example offshore financial institutions. A lack of regulation helps to reduce business costs, as less paperwork is required to carry out business.

Governments also provide financial support, such as grants and tax incentives, to attract new businesses to set up in some regions. These will usually be areas of higher unemployment, where a new business will provide jobs and therefore help to improve the economy.

There are also legal factors involved in choosing a location, such as not being able to locate industrial premises in residential areas. Local and central government planning authorities have a duty to serve the interests of their populations. On the one hand, they want business and industry because they provide employment. However, they also want to protect the environment of the towns and villages.

Now try these

1. Which three factors do you think are most important in choosing a location for each of the following businesses? In each case justify your answer.
   - **(a)** Gypsum mining/quarrying.
   - **(b)** An international call centre (for taking phone calls).
   - **(c)** A hotel.
   - **(d)** A fish restaurant.
2. What factors do you think a supermarket business should consider before deciding to branch out into a new country?
3. Explain why a US company might choose to locate one of its processing plants in a Caribbean country.

3.15

Explain the significance of collateral in accessing capital to establish a business

The concept of collateral

Collateral is an asset (such as property or something else of value) that a borrower provides as security in order to get a loan from a lender. If a borrower fails to pay back the loan, the lender can use the borrower's collateral as payment instead. The lender wants to feel secure that it will not lose out from making a loan, and in many instances will therefore ask for some form of collateral before giving a loan.

Many different valuable assets will be accepted as collateral, including property and financial securities, and even motor vehicles and company assets such as machinery and equipment.

Key term

Collateral: an asset (such as property or something else of value) that a borrower provides as security in order to get a loan from a lender.

Evaluation of different types of collateral

Virtually any asset can be offered to a lender as collateral. The following are some of the common types of collateral usually accepted by commercial lenders.

Property: An entrepreneur might use the title deeds to a property that they own as collateral for a loan to finance a business. This only becomes relevant when the entrepreneur owns the property outright. It might be a risk to offer property as collateral where the buildings concerned are essential to running the business, or form part of the home of the entrepreneur. For the lender, property might be attractive as collateral because it often retains its value over time. However, if the property has to be sold to repay the loan, this may take some time.

Stocks: 'Loan stock' refers to shares in a business that are used to secure a loan. The loan stock earns a fixed rate of interest (just like an ordinary loan). Lenders will have physical control of the shares until the borrower pays off the loan. Therefore, if entrepreneurs want to raise loan finance, they can simply issue loan stock, which is bought by lenders and held until the enterprises choose to repay the loan.

Bonds: A bond is a long-term loan where an investor (or the government) loans money to a business for a fixed period of time at a set or variable interest rate. Owners of bonds are creditors of the issuer. There is a date set for the repayment of the loan, for example when the bond matures.

Money: A cash-secured loan is a way for an entrepreneur to borrow for their business using their cash savings account as collateral. If the entrepreneur defaults on the loan then the borrower can have some or all of the funds that are in the entrepreneur's savings account.

Cash surrender on life insurance policies: Lenders are often willing to accept a borrower's life insurance policy as collateral. Should the borrower die during the period he or she is borrowing money, then the lender is able to claim the money due on the life insurance. Each year, those insured are updated about the cash surrender value of their policy. The borrower continues to pay the premiums on the life insurance, as well as any interest on the money lent by the lender. Once the borrower has paid off the loan, then he or she becomes the owner of the life insurance policy again.

Motor vehicles: Here, a borrower hands over the title deeds to company or personal vehicles (such as a company van) to act as collateral for a loan. Should the borrower default on payment, then the lender can seize the vehicles.

Appliances: Appliances and other forms of equipment can also serve as collateral. For example, a business may finance the purchase of machinery and equipment on a hire purchase arrangement, whereby it only owns the items when the last payment (from a number of instalments) has been made. The company providing the finance for the hire purchase can reclaim the items (its collateral) should the purchaser default. Another way to secure machinery and equipment is to lease it (for example by paying a regular charge) so that the hirer never actually owns the equipment.

The value of collateral

The value of collateral is the estimated fair **market value** of the asset that is being used as collateral. Lenders base the value of collateral on the asset's liquidation value rather than the value of the item when it was initially purchased, or the value that could be realised if sold to the highest bidder. In order to protect itself, the lender will only use a collateral value that is the market estimated value if it has to sell the item quickly in order to raise funds.

Key term

Market value: the price of an item or value of an item in terms of what you would be able to receive for it at a particular moment in time, if you sold it immediately in the relevant market for that item. For example, the market value of property is the price that a real estate agent would currently be able to gain from the highest bidder in the housing market.

Now try these

1. Why do you think a lender asks for collateral?
2. If you were going to provide collateral for a loan, what items do you have that could serve as collateral?
3. **Business in action**: For a business that is local to you, see if you can identify items that the owner could use as collateral, e.g. vehicles. (The business may not actually own the vehicle outright, but for the sake of this exercise, assume that it owns the items it has in its possession).

Develop your exam skills

PAPER 1

1. Which of the following would you **not** associate with being enterprising?
   - A Being prepared to take risks
   - B Being willing to work hard for long hours
   - C Being imaginative and flexible
   - D Looking for predictable and certain outcomes

2. For which of the following groups would a business plan most likely be prepared?
   - A Customers
   - B Employees
   - C Lenders
   - D The local community

3. The best argument for small enterprises contributing to development is that:
   - A It is in fact large enterprises that employ most people in an economy
   - B Small enterprises generate less income and wealth than large businesses
   - C Small enterprises create jobs for employees and products for customers
   - D Small enterprises tend to be more common in smaller countries than in larger ones

4. An executive summary in a business plan:
   - A Is the name used to describe the business plan in its entirety
   - B Sets out in a succinct way the key aspects of the plan
   - C Outlines the key decisions that business managers will make in an enterprise
   - D Focuses on the business market and the management team

5. The function of collateral is to:
   - A Provide funds to a borrower
   - B Enable the lender to take interest from the borrower
   - C Increase the size of the funds that can be borrowed
   - D Provide the lender with confidence that it has security to cover its loan

6. Monetary and fiscal policy is associated with policies made by:
   - A A parish council
   - B A municipal council
   - C An intergovernmental committee
   - D A national government

7. A feasibility study will enable an entrepreneur to:
   - A Decide whether to start up a new enterprise
   - B Borrow money in order to buy start-up equipment
   - C Choose how to market the products
   - D Identify a business name for a new business

8. A business is most likely to locate close to the source of its raw materials when:
   - A The market for the product is a long way away
   - B The raw materials are heavy and bulky, and reduce in the production process
   - C It is essential to locate close to the available labour supply
   - D Only a few raw materials are required for the production process

9. Self-actualisation is most likely to be achieved when:
   - A An entrepreneur sets up a new enterprise
   - B An entrepreneur works long hours with few breaks
   - C An entrepreneur is able to be creative and fulfilled
   - D An entrepreneur is able to make a profit from the enterprise

10. A primary source of information that would help in creating a business plan would be:
    - **A** Government statistics about market trends
    - **B** Existing published material from a market-research company
    - **C** An entrepreneur's previous experience of running a similar business
    - **D** Pamphlets about starting a business from the chamber of commerce

PAPER 2

1. **(a)** What is an entrepreneur? **(2 marks)**
   (b) Explain the role of an entrepreneur in economic development. **(4 marks)**
   (c) Discuss two (2) roles that an entrepreneur has in a business. **(4 marks)**

2. **(a)** List two (2) factors that determine the location of a business. **(2 marks)**
   (b) Outline the reasons for creating a business plan. **(4 marks)**
   (c) Describe the two (2) main sources of information for conducting business research. **(4 marks)**

3. **(a)** List four (4) types of collateral. **(2 marks)**
   (b) What is the significance of collateral in raising business capital? **(4 marks)**
   (c) Describe one (1) government policy to regulate business practices. **(4 marks)**

4. **(a)** Outline the steps for establishing a business. **(6 marks)**
   (b) Explain why a feasibility study is important. **(4 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

4 Legal aspects of business

Setting the scene

The importance of making a contract

Alan Chan has recently opened a new retail store called Sporting Grenada, selling sports equipment in St George's, Grenada. Alan had previously worked in a sports shop in Trinidad, and has arranged to buy supplies of sporting equipment from a supplier in Trinidad called Better Sportswear. Initially, Alan thought that he could just order in sports equipment over the phone and then take delivery of shipments by cargo ferry or, if necessary, by air. However, a business advisor has told Alan that he needs to make sure he has a written contract with the supplier for the supply of goods.

The advisor informed Alan that business documents are very important when ordering goods, and that he will need to fill in a purchase order. The supplier will then send invoices to show how much he needs to pay. The advisor has also told Alan that he should take out some insurance for his business. Alan asked the advisor if that would simply involve insuring the stock of sports equipment in his store. However, the advisor has told him that there will be several other business insurances that he will require.

1. A contract is usually made between at least two parties (individuals or groups). Who do you think the main two parties are in this case study?
2. Why do you think that a contract is required in this instance? Why might it be better to set out contractual details on paper rather than just by word of mouth?
3. What types of detail should be included in this contract?
4. How might business documents relating to the order and supply of goods help Alan Chan and the supplier Better Sportswear? What types of detail do you think would appear on these documents?
5. Alan's business advisor tells him that he needs a range of business insurances. What do you think these insurances should cover? Why does Alan need to take out insurance for the business?

Objectives

After reading this chapter, you should be able to:

1. Explain the concept of a contract 115
2. Identify the types of contract 116
3. Describe the characteristics of a simple contract 118
4. Describe the characteristics of a specialty contract 121
5. Explain the conditions under which offer and acceptance are communicated 121
6. Explain ways by which contracts may be terminated or discharged 124
7. Apply the principles of a simple contract to cases 127
8. Explain why documentation is necessary in business transactions 129
9. Prepare business documents for various purposes 131
10. Evaluate the principles upon which insurance is based 135
11. Explain the various types of insurance policies 139
12. Explain how insurance facilitates trade 141

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

4.1

Explain the concept of a contract

A contract is a legal/lawful agreement that is enforceable by law, with specific terms between two or more people or entities, in which there is a promise to do something in return for a valuable benefit (known as a consideration). For example, an employment contract is an agreement between an employer (to provide work) and an employee (to provide labour services in exchange for wages). Another example might be between a buyer and a seller.

Tip

Make sure you can explain why a contract is important, for example to create a clear legal agreement between at least two parties.

The two parties	The promise	The valuable benefit (consideration)
The employer and employee	To provide labour services	Wages
The buyer and seller	To provide a good or service	The money paid for the good or service

A contract is important because it sets out to limit the potential failure to deliver by either party. For example, the employee may fail to work in an appropriate way or to keep time as expected, or the seller might provide a good or service that is not of the standard expected by the buyer.

The terms are the **conditions of a contract** which need to be fulfilled, for example to work for 40 hours per week, to make payments at a certain rate per hour, etc. Contracts can be either oral or written. However, oral contracts are more difficult to prove. This is because there is no paperwork for evidence. When there is a physical contract outlining the terms, this cannot be disputed. As well as being oral or written, a contract can also be implied based on conduct (what someone does).

Some contracts are based on conditions, for example a car repairer repairs a fault in a car to a certain standard, goods are supplied within a given time frame, etc. If one party fails to meet the terms of a contract, then the injured party can take legal action.

Key term

Conditions of a contract: general conditions are conditions that are general to all forms of contract. Specific conditions are specific to a particular contract, for example the payment conditions, penalties, etc.

Now try these

1. If you do part-time work, you should have been supplied with a contract of employment. Have a look at this contract and identify its terms. What are you expected to do to fulfil your part of the contract?
2. In a situation where you receive some form of payment (for example if you get paid for doing chores, or for carrying out some other form of service or work), create a written contract setting out the terms of the agreement between you and whoever provides you with payment. Of course, this is just an exercise for the purpose of learning about contracts!
3. What is the importance of the 'terms' of a contract?
4. **Business in action**: Identify six situations in the real world of business where contracts would help the parties involved in a specific agreement.

4.2

Identify the types of contract

Business contracts mainly fall into the following categories.

Type of contract	Description
The supply of goods	These are the most common forms of contract. A sale-of-goods contract can be defined as a contract by which the seller transfers (or agrees to transfer) the property in goods to the buyer for a specific price. Handing over money is therefore part of the contract.
The supply of goods on credit	There are many rules and regulations dealing with credit transactions. For example, when a customer buys goods on credit from a supplier and then makes repayments over a period of time, there are rules relating to making payments on time and who owns the goods being bought.
The supply of work and materials	This relates to jobs of work where a supplier or contractor will supply the materials and the skills/labour, for example repairing a house or a motor vehicle.
Contracts of bailment	These relate to situations where the owner of some goods (the bailor) entrusts the possession of them to another (the bailee), for example when a solicitor or bank holds important documents or valuables for a business.
Employment contracts	These set out the employment terms between an employer and an employee.
Contracts of agency	These are contracts where an organisation or individual employs an agent to work on their behalf, for example a professional baseball player may employ an agent to make contracts on their behalf.
Contracts concerning land	These include the leasing and mortgaging of land.
Financial services contracts	A business uses a range of financial services, for example bank loans and insurance. These all involve contracts, for example to outline what is covered by an insurance policy.

Judy Bailey, a singer from Barbados. In a contract between a musician and a booking agent, the musician promises to perform at a gig in return for payment from the booking agent

The purpose of a contract is to establish officially the agreement that the two parties have made, and to fix their rights and duties in accordance with that agreement.

Typically, a contract will be bilateral. For example, a promise will be made by one party in exchange for the performance of some act by the other party. A booking agent might book (contract) a musical artist to perform at a concert. The artist promises to play at the concert and the booking agent promises to accept and pay for the performance.

A distinction is made between simple contracts and specialty contracts.

A simple contract is where there is an **offer** and **acceptance** of terms. It is legally binding, but the contract has no deed (it is not signed, sealed or delivered). Such contracts are very popular and generally implied, expressed orally or written down. The three key elements of a simple contract are:

- Legality: being in accordance (conformity) with the law.
- The offer: a promise which, according to the terms set out, becomes legally enforceable if accepted.
- Acceptance: an act or conduct that indicates assent to the terms of the offer.

A specialty contract, in contrast, is a contract **under seal**, and in law it is considered to be a more serious and official contract than a simple one. Examples include contracts to do with the sale of land, the sale of property, mortgages, hire purchase agreements, etc.

These contracts often involve large sums of money or considerable obligations and terms. They will be in writing or printed on paper, and will be sealed. The contract is conclusive between the two parties when it has been signed, sealed and delivered. For example, when a purchaser has signed a contract to buy goods under a hire purchase agreement, where the finance is provided by a finance company and the document is under seal.

Contracts of record are another type of contract. These are a special form of contract such as court orders. The distinguishing feature of a contract of record is that it has been declared by a court of law and entered into the court's records. This record provides conclusive proof of the contract.

Now try these

1. There are typically at least two parties to a contract. Identify the two main parties in each of the contracts outlined in the table on page 116.
2. Why do you think businesses need to make contracts? How do you think they would be able to prove that they have a contract?
3. What types of detail do you think should be set out in the following?
   (a) A contract for the supply of goods.
   (b) A contract for the supply of goods on credit.
   (c) An employment contract.
4. **Business in action**: Identify a situation where you or your family might be involved in a 'contract'. Who are the two parties to the contract? What is the purpose of the contract? What responsibility do you or your family have in relation to the contract that you have identified?

Key term

Offer: a proposal made by one party to another party, establishing his or her willingness to enter into a legal binding agreement. The basis of the offer will help to form the contract.

Acceptance: the act of agreeing to take up (accept) an offer. A situation where the offeree agrees to the terms and conditions set out by the offeror in the contract.

Under seal: this term applies to a situation where legal documents are differentiated from other types of document. A seal is a legal mark which signifies that the document with the seal is a legal document and that it is binding.

Tip

Make sure you can show that a specialty contract has more solemnity and dignity than a simple contract because it needs to be "signed, sealed and delivered".

4.3

Describe the characteristics of a simple contract

In order for a simple contract to be enforceable in the court of law, it must satisfy the following requirements/elements:

- offer and acceptance
- competence of the parties (capacity)
- intention to create legal relations
- consideration.

We will discuss each of these in more detail below.

Offer and acceptance

Simple contracts consist of two main elements: an offer, and acceptance of that offer. One party (the **offeror**) makes an offer, which is then agreed to (accepted) by the other party (the **offeree**). This creates a binding contract. For example, a celebrity chef agrees to provide the food at a wedding for a given price. This agreement is set down on paper, itemising the services to be provided, the breakdown of costs, and the total price to be charged. In this example, the person requesting the food to be supplied is the offeror (offering to pay a certain sum), and the offeree is the chef who will supply the wedding meal.

For an offer to be valid, it must be communicated in an acceptable way, such as by post, telephone or facsimile. It must also be clear that it is an offer, and not just an invitation to perform a duty or to purchase something etc. The offeree can then counter-offer, i.e. provide a new or revised offer to the offeror. If this counter-offer is accepted, it voids the original offer. For an offer to be accepted, it must be in the manner stated by the offeror, and communicated in the time specified.

Key term

Offeror: someone who makes a proposal to another party in the hope of entering into a contract with them.

Offeree: someone who receives a proposal from another party (i.e. from the offeror). If the offeree accepts the proposal he or she enters into a contract with the offeror.

Competence of the parties

For a contract to be enforceable in law and therefore valid, it is essential that both parties are competent to enter into a legal agreement. This means that they must have reached the age of majority (i.e. they are adults), and they must also be of sound mind. This is to avoid exploitation of young people or those whose judgment may be badly affected by alcohol or other drugs, or by mental illness. There needs to be some demonstration that both parties understand and agree to the essential nature of the contract. Otherwise, the contract will be void.

One example is that minors cannot enter into a cellphone contract. A minor can use a cellphone, but the contract would need to be between a responsible adult and the cellphone company. The responsible adult would then be responsible for all charges levied by the phone company

for this phone. Regardless of age, if any of the people involved in the contract are under **duress**, this means that they are not competent to enter a contract.

Intention to create legal relations

Another aspect of a contract is that there should be the "intention to create legal relations". This occurs when the parties intend to enter a legally binding agreement or contract. A distinction can be made here between agreements that are made in social or domestic situations, and ones in a commercial setting.

For example, if you agree to meet someone for a coffee and fail to turn up, they cannot accuse you of breaking a contract because the law presumes that you did not intend to form a legal contract. In contrast, in a commercial setting, if a buyer agrees to pay a seller a certain sum on a certain date and this has been clearly set out, then this does involve the intention to create legal relations.

Consideration

The other essential ingredient of a simple contract is **consideration**. Consideration is the exchange of one thing of value (such as a product or service) for another thing of value (such as payment). Executed consideration means the exchange must happen immediately after the contract becomes valid. In contrast, an executory consideration means exchange can happen at a date in the future.

In a **bilateral agreement** (a situation where both parties exchange promises with each other), each promise is considered as sufficient consideration for the other. For example, Jones agrees to paint Patel's house in exchange for Patel agreeing to do Jones's plumbing. The painting and plumbing are the consideration in the form of performance of work.

In contrast, in a **unilateral agreement**, one party makes a promise in exchange for the other's performance. The performance is consideration for the promise, while the promise is consideration for the performance. For example, Patel agrees to do Jones's plumbing for a set fee. The performance is the plumbing work and the promise is the agreement to pay.

There are certain rules governing consideration, for example past consideration is not usually valid in contract law. Consideration should be able to be exchanged at the time or after the contract becomes valid, not prior to it. Also, consideration must be sufficient but does not need to be adequate. This means that the value of the consideration does not have to equal the item, product, task, etc. being exchanged exactly, but needs to be sufficient, and agreed by all parties.

Key term

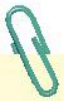
Duress: to coerce someone against their will.

Consideration: something of value given up by both parties as part of an agreement, for example performance, promises or money.

Bilateral agreement: a situation where both parties exchange promises to each other.

Unilateral agreement: a situation where one party makes a promise in exchange for the other's performance.

The diagram below shows what a simple contract might look like.



Samuel Harrison agrees to enter into a contract with Amin Stores on 31 May 2019.

This agreement is based on the following provisions:

- To supply shop fittings as required.
- Furthermore, Samuel Harrison agrees to maintain store fixtures and fittings.
- Amin Stores agrees to pay Samuel Harrison within 60 days of receipt of invoices pertaining to the supply of fittings, and maintenance of fixtures and fittings.

This agreement is subject to the laws and regulations of Trinidad.

Signed
Samuel Harrison
Samuel Harrison

Signed
Tariq Amin
Tariq Amin

Tip

The legal term "consideration" is a key part of a legal contract. You should be able to explain that it involves something of value being exchanged for something else of value in a contract.

In many areas of commerce (trading) and business, companies use standard contracts. These are documents setting out standard terms, where the details simply need to be filled in by the parties, such as the name and address of the contractor, the start and end dates, the fee, etc. A standard contract is often used for services such as a construction firm agreeing to build a house, or a PR firm agreeing to represent a client.

Now try these

1. If someone agrees to give you $5, does this involve consideration? Explain your answer.
2. A hairdresser promises to cut a client's hair for $10 and then cuts the hair to the client's satisfaction. Is the $10 consideration? Explain your answer.
3. Joshua Brown has made an offer to Hortense Williams to buy her second-hand Volkswagen for $4 000. Hortense considers the offer and then agrees to accept it on the condition that she is paid in cash. In this situation, who is the offeror, who is the offeree, and what is the original offer? Is the offer accepted? What terms will be part of the contract?
4. **Business in action**: Lightning Rod Constructors agree to install storm-resistant electrics at a new factory building belonging to Very Fast Foods. It will do so for a fee of $3000, which must be paid within 28 days of the completion of the installation. What consideration is involved in this contract?

4.4

Describe the characteristics of a specialty contract

In contrast to a simple contract, a specialty contract is a contract under seal, and in law it is considered to be a more serious and official contract than a simple one. These contracts often involve large sums of money or considerable obligations and terms. They will be in writing or printed on paper, and they will be sealed. The contract is conclusive between the two parties when it has been signed, sealed and delivered.

A specialty contract is a written formal agreement. As there is so much formality associated with a specialty contract, the law courts will hold this contract as being very clear and therefore not one that can be got out of by an unscrupulous party.

To be valid, a specialty contract must be signed by all parties involved, sealed and delivered. For example, a recording artist and his manager receive a contract from the Shining Start Music Company. They sign the contract and place it into a sealed envelope, then send this back to the music company by courier with a signed receipt (or they might deliver it by hand). The contract is now a specialty contract because it has been signed, sealed and delivered. The term 'signed, sealed and delivered' is therefore an acknowledgment that the contract has been executed properly.

4.5

Explain the conditions under which offer and acceptance are communicated

An offer is a statement of the terms. If the offeree accepts the offer, he or she is willing to agree to these terms.

There are three components to an agreement:

1. The offeror makes an offer, which is a statement of the terms.
2. An agreement is reached.
3. The offeree accepts the offer.

When these three elements come together in an agreement, there is a firm basis for a contract. In contrast, an invitation to treat is not a genuine offer, and is therefore not binding. When store owners have goods on display, it is an invitation to treat, not an offer.

The importance of case law

Much of contract law is based on past **case law**, for example on judgments that have been made over time, and which set precedence for cases in the future. It is therefore important to examine relevant case examples involving contracts.

Now try these

1. In the following instances, explain why a specialty contract has not been formed:
   (a) Wilma says to Grace that she definitely wants to purchase the new wedding dress that Grace is displaying in her shop.
   (b) Wilma writes a note with her address at the top, asking Grace to hold the wedding dress for her until she can pay for it.
   (c) Wilma phones Grace to say that she would like a discount on the dress, and if Grace consents over the phone, she will come round with the money next week.

Key term

Case law: law that has been established by following decisions made by judges and the courts. Previous judgments set a precedent for future judgments.

Making an offer is both a proposal and a promise to comply with the stated terms. One of the best-known early cases in contract law that is relevant to business agreements took place in the United Kingdom, and is outlined below.

***Carlill v Carbolic Smoke Ball Co.* (1893):** The defendants – the Carbolic Smoke Ball Company – placed advertisements in newspapers stating that they would pay £100 to anybody who used their product and caught influenza (flu).

Mrs Carlill used the Carbolic Smoke Ball in the way outlined, but still caught the flu. When she tried to claim the £100, she was turned down. She therefore sued Carbolic Smoke Ball Co. for breach of contract.

In the court case, the defendants claimed that they had not attempted to form a contract with the whole world, which would be impossible. However, the judge held that they had indeed made an offer to the whole world, and therefore should be liable to anyone who caught the flu after using their products as set out. Mrs Carlill was able to recover £100. The judge stated that if a person chooses to make extravagant promises of this kind, they probably do so because they reap the benefits of making them, and if they have made them, the extravagance of the promises is no reason in law why they should not be bound by what the promises offer.

The case highlights the way in which the law recognises offers as terms that have been made to individuals, groups or to the whole world.

Acceptance of an offer

What constitutes acceptance of an offer?

Once a legal offer has been made, the next step in the agreement is to identify acceptance of that offer. This must take place while the offer is still open, and must involve full acceptance.

Case law has established the following rules of acceptance:

- Acceptance can only be made by the person who has been given the offer. For example, if a shopkeeper offers to sell a book at a discount only to Dalvinder Kaur, then Dalvinder is the only one who can accept this offer. Obviously, this does not relate to an offer made to the world at large, as in the *Carbolic Smoke Ball* case.
- Acceptance must be absolute and unqualified. In other words, the offeree cannot add extra terms and conditions; this would require a new offer. Altering the terms and conditions is referred to as a counter-offer. It would then be up to the offeror to make a new offer and have it accepted in order for acceptance to be absolute and unqualified.
- Acceptance has to be communicated to the offeror. Typically, this will be through word of mouth or written communication. However, the court may deem that the acceptance is implied by the conduct

Key term

Acceptor: the person to whom an offer has been made, and who has accepted the offer.

of the **acceptor**. (In the *Carbolic Smoke Ball* case, Mrs Carlill was not expected by the court to have written back to the Carbolic Smoke Ball Company to accept their offer.) The contract is formed at the time and place that the acceptance is received by the offeror. If the acceptance is sent by post, the contract is formed on posting, even if the letter is delayed or lost. (Of course, today many contracts are formed by electronic communication.)

- Acceptance must be in the mode set out in the offer. For example, an advertisement might ask for an order to be made in writing.

Offers and acceptances may be made verbally or in writing. Where an offer is made out in writing and accepted in writing, it is clear that a contract has been made, and it is easy for this type of contract to be dealt with by the courts should a dispute arise. However, it is important to recognise that verbal contracts are also binding where an offer has been accepted.

Just like a written contract, a verbal contract will be valid and binding as long as it is reasonable, equitable and made in good faith. However, it is more difficult to enforce an oral contract because one or both of the parties to such a contract may later choose to lie about the content of the agreement. It makes sense, therefore, for parties engaging in a contract to set clear terms of agreement in writing. It is more sensible and better practice to create a written contract because it is difficult to prove what has been said in an oral contract. Oral contracts are most likely to be accepted in a court of law when there are independent witnesses to the verbal agreement.

Tip

Make sure you can define the term "acceptance". Acceptance is one party's compliance with the terms of an offer made by another party. Acceptance is required in order for a contract to become legally binding.

Now try these

1. To what extent does an offer help to establish the terms of a contract? (In your answer, refer to the *Carbolic Smoke Ball* case study.)
2. John borrows money from a money lender because he is desperate to pay rent for his family's lodgings. He borrows $1 000, but is not told about how much interest he will have to pay on the loan. He verbally agrees to accept the loan and to make repayments each week. The next week, the money lender visits John and tells him he has to repay $50 a week for the next three years to pay back the loan. Do you think that a court of law would accept that this offer is reasonable and made in good faith? Explain your answer.
3. **Business in action**: Carry out some online research to find a car-hire contract. Identify terms that appear to favour the hirer of the car, and terms that favour the company hiring out the car. What should the hirer be wary of when hiring a car from this company?

Key term

Discharge of a contract: this occurs when the obligations on the parties to the contract have been met.

Termination of a contract: most contracts are completed when they have been discharged and thus the contract is terminated. However, in some instances one or both of the parties can terminate a contract because they do not want to go ahead with the terms set out in the contract, for example because of the failure of one of the parties. For example, if a firm closes down then some of its contracts will not have been discharged, but they will be terminated through inability to continue trading.

4.6

Explain ways by which contracts may be terminated or discharged

The concept of discharge

A contract typically remains in existence until the terms of the contract have been met, for example both parties have fulfilled their stated responsibilities. There are certain circumstances, however, when a contract can be discharged (terminated). When a contract is discharged, the rights and obligations of the parties under the contract no longer apply.

Types of discharge

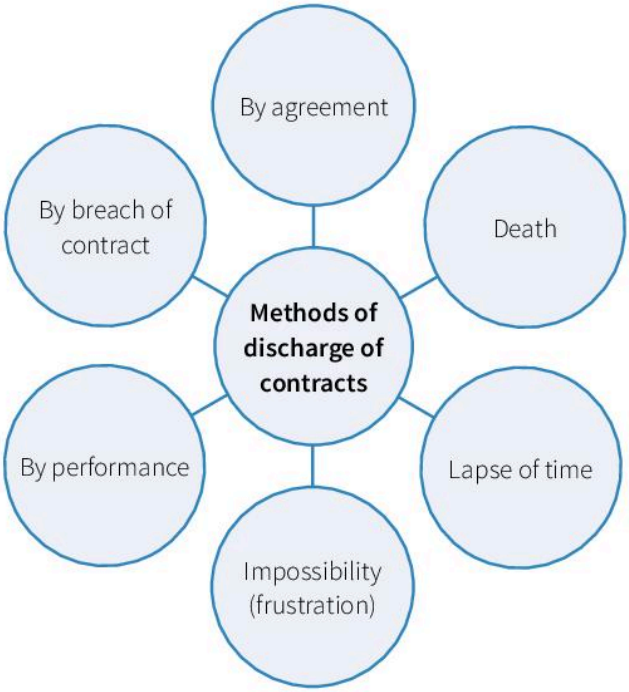
The most common type of **discharge of a contract** is 'discharge by performance', which is discussed on the next page. Here all parties to a contract will successfully meet their contractual obligations.

In some instances, an original contract might be substituted with a new contract. For example, person A is contracted to do something for person B but realises he or she cannot meet the requirements of the contract. Therefore he or she asks person B if the terms of the contract can be amended (and person B agrees). The term 'novation' refers to a situation where a new contract replaces the previous one.

Alternatively, the parties may agree to cancel a contract altogether, so that the terms are no longer valid. This cancellation is referred to as 'rescission'.

Methods of discharge

There are six main ways in which a contract can be discharged. These are discussed below.



By performance: This is the most common form of discharge, and it occurs when both parties fulfil their obligations in a contract. For example, a building firm supplies materials to a construction firm, who then pays for them.

There are varying levels of performance that are acceptable to the courts, as illustrated below:

- Complete performance: where every term and **warranty** has been discharged.
- Substantial performance: where the terms of a contract have been substantially fulfilled. In this case, a court may allow one or both parties to make recovery for minor details that have not been completed fully. For substantial performance to be discharged, the court would make a distinction between conditions and warranties, with the conditions needing to be discharged. Substantial performance has been achieved when the conditions of the contract have been met, but warranties do not necessarily have to be met for the court to make this judgment.
- Partial performance: where a party accepts an element of the performance of the other party. For example, if a party pays for 100 books when 200 had been ordered, then it will only be able to make a claim of unfulfilled terms for the 100 undelivered books.

By breach of contract: Breach occurs when a party named in the contract fails to complete its part of the contract. Breach typically fits into two categories: anticipatory breach and actual breach.

Anticipatory breach takes place when one party declares that it will not fulfil all of its obligations in the contract. The party declares this before the end of the contract (before the performance is due). The wronged party can then immediately sue for damages or wait until the time when the performance is expected to occur.

Actual breach takes place when one party does not fulfil all of its obligations at the end of the contract (on the date it is due), or **terms** within the contract are only partially met. It is necessary for the innocent party to show that the breach affects a vital part of the contract in order to prove actual breach.

When a breach occurs, there are remedies that can be provided to the wronged party, which act as compensation for the breach. These include:

- Damages: a sum of money to counter the financial loss incurred.
- Rescission: the "unmaking" of a contract, to bring all parties effectively back to the position they were in before the contract was made.

Key term

Warranty: guarantee given on the performance of a product or the doing of a certain thing.

Term: any provision forming part of a contract. Each term in a contract gives rise to a contractual obligation. Breach of a term can lead to litigation, which is the process of taking legal action (for example taking an individual or business to court).

Tip

Make sure you can explain all six acceptable reasons for discharge of a contract, with examples for each.

Key term

Waive: voluntarily surrender a right or privilege.

Now try these

In contract law, it is particularly important to understand terms and definitions, and to appreciate subtle differences in terms. See if you can answer the following questions (working with at least one other student):

1. Explain the difference between termination of a contract by agreement and termination by performance.
2. What is complete performance?
3. Explain what is meant by frustration.
4. What is meant by breach of contract?

- Specific performance: the party breaching the contract must carry out its duties as specified in the contract.
- Injunction: the party breaching the contract is prohibited from doing something, such as entering into another contract.

By agreement: The parties named in a contract may agree a point at which the contract will be terminated. For example, an international cricketer is contracted to play for the West Indies Cricket Board for a two-year period. Generally in such contracts, there would be terms allowing termination by notice. There are usually statutory requirements relating to the amount of notice that should be given.

A contract can also be terminated by the creation of a new agreement, which must include consideration (something of value being exchanged for something else of value in a contract). If neither party has yet kept their side of the original agreement, then this is easy, because the consideration is the fact that each of the parties **waives** their rights. However, if only one party has not kept his or her side of the agreement, then he or she will typically have to provide fresh consideration.

Impossibility (frustration): If it is impossible to perform a contract from the outset, then it is void. For example, this could occur when a bookseller agrees to supply a book but then finds out that it is no longer available from the publisher, or a sugar co-operative in the Caribbean agrees to sell a sugar crop that is then destroyed by weather conditions (such as a hurricane). Discharge by frustration usually occurs where there is no fault by either of the parties.

Lapse of time: A contract will be deemed to be discharged if it is not enforced within a specified time period. This period is called the "period of limitation".

National legislation sets out the period of limitation for different types of contracts. For example, in Aruba there is a statute of limitations for debt claims of up to five years (i.e. the debt needs to be collected within that five-year period). However, in Aruba, if the company that is owed money under a contract sends letters to the debtor regularly, then the period of five years starts again from the date that each letter is sent (providing there is no lapse of more than five years between sending the letters).

Death: Contracts will be discharged if a party dies. This particularly relates to contracts involving personal service by one of the parties. For example, if a decorator is contracted to paint a building but then falls off a ladder and unfortunately dies, the contract is discharged.

4.7

Apply the principles of a simple contract to cases

It is helpful to look at real case studies to identify ways in which contract law is upheld in practice in relation to simple contracts. However, before looking at case studies, it is useful to explore the concept of damages.

Damages

"Damages" are a sum of money awarded by the courts in compensation for a loss or injury. "Remedies" are what the injured party in a contract is entitled to receive, in order to try to put right the loss or injury he or she has suffered. A breach of contract gives the injured party the right in common law to seek to recover the damages (for example financial compensation).

Sometimes, the parties named in a contract are able to foresee the possibility of the contract breaking down, and therefore set out terms in the contract regarding how much will be paid in damages should this happen. Liquidated damages are decided at the time of making a contract, and should be based on a genuine estimate of the damages if the contract breaks down. For example, when buying a holiday from a travel firm, your entitlement to compensation may be outlined as part of the contract.

Unliquidated damages are not decided beforehand, and are therefore not set out as terms in the contract. Instead, the amount of damages is decided by the court, with the aim of putting the injured party in the position they would have been in if the contract had been fulfilled.

A penalty clause states that a party of the contract will incur a penalty (usually a financial loss) if the party fails to perform on a certain term or terms in the contract. Penalty clauses are often inserted into a contract to ensure that the contract is performed properly. They are not necessarily a reflection of damages. The main reason for including a penalty clause in a contract is to act as a deterrent to breach of contract. For example, when the Sir Vivian Richards Stadium was built in Antigua, penalty clauses were set for construction companies in order to ensure that the stadium was built on time (rather than as a means of financially punishing contractors).

Below are some real case studies which show how contract law is upheld in relation to simple contracts.

Case 1: Europcar

Terms and conditions set out in Europcar's online booking process (the offer and acceptance process)

In 2018, Europcar (a car-hire company operating at major airports in the Caribbean) set out the following terms and conditions on its website for online booking. These steps outline the relationship between an offeror and an offeree, and the steps from offer to acceptance that lie at the heart of contract law.

Now try these

1. How might financial compensation be regarded to be a remedy for an injury suffered by a worker in their workplace?
2. How do you think a court decides on the level of damages to be awarded, for example for a worker who has been unfairly dismissed from work and is unable to gain employment at the same level as before for a period of two years?
3. **Business in action**: Why are damages awarded? See if you can find an example in your national newspaper of a situation where damages have been awarded. What were the circumstances?

Europcar sets out the terms and conditions for the hire of its cars on its website

Now try these

In the case study about Europcar:

1. Identify the steps involved in offer and acceptance.
2. Why is acceptance so crucial?
3. At what stage does a contract exist?
4. Identify the offeror and the offeree in relation to this contract.

First step: selection of the service

Enter your rental criteria in the online booking form including rental dates, rental locations and choice of vehicle.

Second step: Europcar's offer

Based on the criteria you provide, Europcar will provide you with several offers matching your request.

The "offer" is defined as a service, which includes a selected vehicle category available for a chosen duration with selected options (if any) and a rate, which can be either prepaid or paid on arrival.

You will then be asked to select the offer that best fits you.

Third step: acceptance of the offer

You can add extras or additional protections by clicking on the desired items. The cost of each of the selected items will be added to the final price of your rental.

Europcar's terms and conditions

Now try these

In the case study involving NH International (Caribbean):

1. Identify the offeror and the offeree.
2. At what point would a contract have been formed in this instance?
3. Why are the terms of the contract so important?
4. Why did the court make the judgment that National Insurance Property Development Company Ltd had not kept to the terms of the contract?

Case 2: NH International (Caribbean)

Terms of a contract between NH International (Caribbean) and National Insurance Property Development Company

NH International (Caribbean) was engaged by National Insurance Property Development Company Ltd to build a new hospital in Tobago. One of the terms of the contract was that the property development company would provide financial information within 28 days of signing the contract to show that it could pay for this development. The contractor (NH International) requested this financial information, but felt that it had been provided with insufficient details. It therefore suspended work and terminated the contract. The courts upheld the contractor's claim, stating that insufficient financial information had been provided as set out in the terms of the contract.

This case highlights the way in which an offer provides the basis of a contract in terms of promises, and these terms provide the basis for legal judgments.

Case 3: Television Jamaica

Right to damages

In 2015, Television Jamaica (the claimant) took Linscom Network (the defendant) to court for infringement of copyright rules. Television Jamaica had paid a US broadcaster for the exclusive rights to broadcast the Diamond League series of athletic events. However, Linscom also broadcast the first few events in the series, claiming that because of the way that satellites provide sound and pictures, it was able to acquire

the broadcasts through satellite overspill from the United States into the Caribbean region, and therefore it was legitimately entitled to show these programmes.

Jamaica's Supreme Court ruled in favour of the "claimant", stating that Linscom had indeed infringed copyright and that it should therefore pay significant damages for the loss of revenue to Television Jamaica. Television Jamaica had a contract to broadcast this series with its American partner that was directly televising the events, and Linscom did not.

4.8

Explain why documentation is necessary in business transactions

There are a number of important documents that a business needs to keep relating to transactions for purchases and sales, as well as for other purposes such as paying taxes. Key reasons for keeping such documents include the following.

- To keep accurate accounts of the financial dealings of a business, so that directors can measure the sums of money flowing in and out of the business during a specific period of time.
- To keep records of accounts with individual customers and suppliers. Statements of account will identify all transactions and payments that have been made with a specific customer in a specific period of time.
- To record all transactions in a systematic way so that they can be checked. This is particularly important in legal disputes relating to payment, charges, etc. There is a saying that "if it is not recorded then it did not happen". It is also a legal requirement that transactions should be recorded for tax purposes, for example so that sales and purchase taxes can be calculated and documented.
- To have accurate business records. These records need to be checked and verified through the **audit** process to make sure they are being recorded in a lawful way. Large firms will employ an internal auditor, who checks records within a company as part of an **internal audit**, and an external auditor, who will verify as part of an **external audit** that the accounts provided are true and fair.

There is a series of documents that will be used by buyers and sellers when making business transactions. The diagram below shows the movement of the main business documents between the buyer (the purchasing department) and the seller (the sales department). The process starts out with an initial request for information (an inquiry) about the products.

Now try these

In the case study about Television Jamaica:

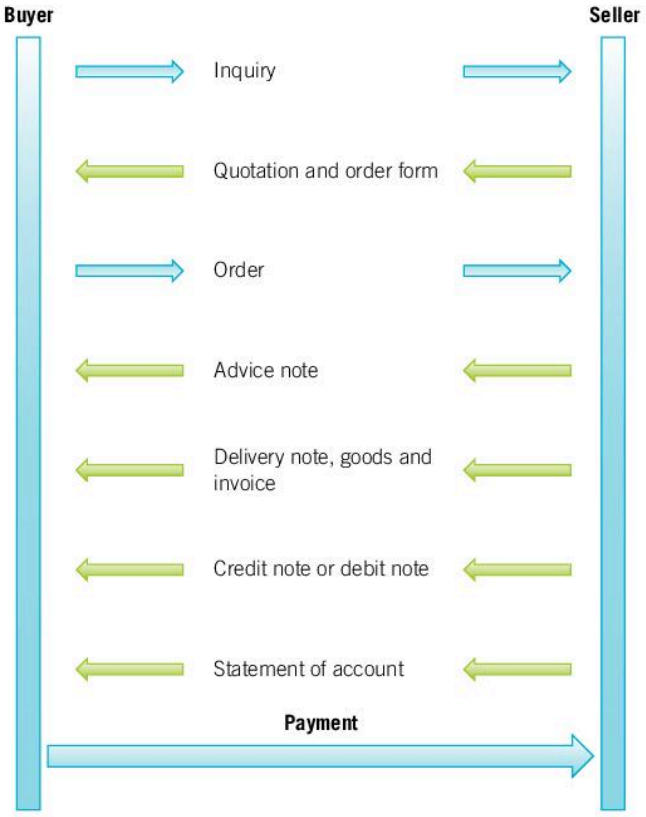
1. Why is Television Jamaica referred to as the claimant, and Linscom as the defendant?
2. What are damages?
3. Why did the Supreme Court set out the judgment that Television Jamaica was entitled to damages from Linscom?

Key term

Audit: an official inspection of an individual's or a firm's accounts.

Internal audit: an audit that takes place within a company by an employee who has the specific task to inspect and check records.

External audit: an audit carried out by an independent, qualified accountant. The purpose of the external audit is to determine whether the accounting records are accurate and complete.



A buyer will request information about goods, prices and delivery dates, as well as terms such as discounts. The **inquiry** is the request for information, and sets off the processes of buying and selling.

The seller will then respond by sending a quotation (such as a catalogue) and an order form to the buyer. A quotation tells the buyer what is available and at what price, as well as other details relevant to the transaction. A **price list** may be sent as part of the quotation.

The buyer will fill out an order form to set out what he or she wants to buy and in what quantity, as well as at what price.

The seller will then send an **advice note**, which is likely to be a pro forma invoice (see page 131). The advice note will show what the actual invoice will look like when it is sent with the goods.

The goods will then be delivered as advised. A **delivery note** will be sent with the goods, so that the receiver can check that everything has been received as expected. A copy of the delivery note will be given to the transport company/driver so they know where to deliver the goods, and they can get this signed as proof of delivery. An invoice may be packed with the goods or sent on at a later stage.

If there are breakages or some of the goods have been left out, the seller will send a **credit note** to the buyer for the relevant sum of money. Alternatively, if the goods have been undercharged or if there are extra payments to be made, then the seller will send a **debit note**.

Key term

Inquiry: a request by a potential buyer for information about goods/services, such as their prices and how they will be supplied.

Price list: a list of goods and their prices.

Advice note: a document (often a pro forma invoice) advising the buyer when the goods will be supplied, in what quantities, and at what prices.

Delivery note: a list of items supplied (as well as other details), sent with goods as part of the delivery process.

Credit note: a document sent by the seller to the buyer reducing the amount that needs to be paid on an invoice, for example because goods are damaged in transit.

Debit note: a document sent by the seller to the buyer identifying additional money that is owed, for example because there has been an error in calculating how much needs to be paid.

Finally, at the end of the trading period, the seller will send a statement of account to the buyer, setting out all of the transactions and payments that have been made within a specific period, for example during one month.

Now try these

1. A bookshop has asked a publisher to provide a price list for its crime books, details of the terms on which it will supply the goods, and details about how long it would have to wait for deliveries. The publisher replies by sending a catalogue containing a list of all the books that it sells, an order form, and a quotation that states that bookshops can receive a trade discount of 50 per cent on the list price of books.
   (a) Why would the bookshop have requested a price list before making out an order?
   (b) What is the purpose of a quotation?
   (c) Assuming that the bookshop goes ahead and places an order, what details would you expect to see on the order form?
2. Why are several copies of an invoice made? Identify the possible purpose of making four copies of an invoice.
3. What information will a company making out a purchase order expect to see before the delivery of the goods?
4. **Business in action**: Find a catalogue issued by a business in your area, for example a retailer's catalogue, a wholesaler's catalogue or an online seller's catalogue. Make a list of the main types of information set out on the order form.

Tip

Make sure you can explain how and why business documentation is important to a business. For example, why are documents important for a business's own records? Why are documents needed when transactions are made (and what information should be included in these documents)? How are documents helpful for dealing with the tax authorities?

4.9

Prepare business documents for various purposes

There are a number of common documents that businesses use for a variety of purposes. Here we will show what these documents look like and how they should be prepared. You should be able to prepare simple pro forma invoices, purchase requisitions, statements of accounts and stock cards yourself.

Pro forma invoices

An invoice (sometimes referred to as a sales invoice) is a document sent to the buyer by the supplier, which establishes an obligation on the part of the buyer to pay. It therefore verifies the agreement between the buyer and seller, and forms the basis for a contract. Several copies of the invoice will be made out, each serving a different purpose. For example, one might be sent before the goods arrive, to advise the buyer

what to expect and when; another might be packed with the goods so that the delivery can be checked; and another might be sent after delivery to act as a form of bill (request for payment). Today, most firms will use online business accounting software to generate and record invoices.

Important details on an invoice include the following.

- The date when the invoice is created and the date when payment is expected.
- Names and addresses of the customer and the supplier (with accounting software, you may only need the email address of the customer).
- Contact names of the relevant parties in the sales office (of the seller/**vendor**) and purchasing office (of the purchaser) who are dealing with the invoice.
- A description of the items purchased, i.e. prices and quantities, as well as any sales taxes on the items and any discounts.
- The terms of payment. This will include whether a discount is allowed for payment within a certain time period, for example whether a cash discount (reduction) of 5 per cent is allowed if payment is made within one month. The term "net" indicates that there is no discount.
- The total amount owed.
- The invoice number and purchaser's order number.

The term "pro forma invoice" refers to the form that the invoice will take when it is sent out by the seller. Before the goods are sent, the seller is likely to send a pro forma invoice to the buyer to show what the actual invoice will look like. This acts as a form of contractual agreement between the two parties, both for the seller to provide the goods and the buyer to pay for them. A pro forma invoice might look something like this.

PRO-FORMA Invoice

Date: _____

Invoice number: _____

Order number: _____

Details of seller
(business sending the goods)
E-mail address: _____
Phone number: _____

Details of purchaser
(business receiving the goods)
E-mail address: _____
Phone number: _____

Contents

Description	Quantity	Price	Tax	Price plus tax
				Total

Terms: _____

Name: _____ Signature: _____

Key term

Vendor: name of the supplier of the goods or service.

Now try these

1. Create a pro forma invoice from Tobago Clothing Supplies, who have been asked to supply 30 male dance costumes at $25 each, 20 female carnival costumes at $50 each, and 30 children's costumes at $15 each, to Island Carnival Productions. Terms are for full price net, and 10 per cent cash discount within one month. The invoice is sent out on 15 May 2019. The address of Tobago Clothing Supplies is Sea View Road, Tobago, while Island Carnival Productions is based at 55 Main Avenue, Tobago.

Purchase requisitions

A purchase requisition form is used by a department within a business to make an order for supplies such as stationery, paper, etc. It is therefore an official order form, and will look like the following.

Purchase Requisition Form

Department name

Vendor: _____

Purchase order number: _____

Date: _____

Quantity	Description	Account to be charged	Value ($)
		Total	

This purchase authorised by:

Name: _____

Title: _____

Articles or service received by:

Name: _____

Title: _____

Date received: _____

The purchase requisition form shows which department has made the purchase request, and therefore which department is to be charged. It also itemises the following information:

- purchase order number
- details of the person who has authorised the order
- description and number of goods or services being requested
- total value ($).

The purchase requisition form also provides a space for a signatory to acknowledge receipt of the goods or services ordered.

Statements of accounts

A purchase requisition form and pro forma invoice deal with transactions at a particular point in time. In comparison, a statement of account highlights a series of transactions (and payments) that have taken place over a *period* of time, for example over one month, two months or three months.

The statement will therefore show the account holder's balance at the start of the period, the transactions made during the period, and the balance at the end of the period. Typically, it will record the invoice

Now try these

1. Make out a purchase requisition form from the sales department of Velum Publishing Works to the publishing department of the same company, for 100 copies of *The Life and Times of a Leading Recording Star* by Billy Vocal. You can put in your own details for the date, the price of the book, and the names of the person authorising the purchase request and the person receiving the order.

numbers and the amounts they are for, as well as any payments that have been made during the time period of the statement.

For example, the statement below shows the transactions and payments made by a small retail store, which bought stocks from a wholesaler during March 2019.

Statement supplied by Green's Wholesaler,
Paradise Boulevard,
Port of Spain.

31 March 2019

Statement of account for Amin Stores

Date	Description of document or type of entry	Amount credit $	Amount debit $	Account $
1/3/19	Opening balance			(640)
4/3/19	Invoice no 234	(200)		(840)
6/3/19	Payment by cheque		640	(200)
10/3/19	Invoice no 235	(743)		(943)
15/3/19	Credit note 72x		113	(830)
21/3/19	Invoice no 236	(170)		(1 000)
31/3/19	Closing balance			(1 000)

(Note that debits on the purchaser's accounts in this instance are recorded as negative figures and are shown in brackets, for example (1 000).)

Stock cards

A stock card is used by a business to keep a check on how much stock it has in its stores. This involves calculating how much stock enters the stores and how much stock leaves the stores. The balance shows how much stock remains in the stores at any time. Five major columns are required to record this information:

- the date
- a reference, for example balance, purchase or sales
- a column for recording movements in (purchases)
- a column for recording movements out (sales)
- the balance of stock.

Let us assume that we value the stock in terms of how much we purchased it for (rather than how much we sell it for). We assume that there is just one stock item which is purchased for $10 per unit.

We can then sub divide the columns for purchases (in), sales (out) and balances of stock into three: quantity, cost and value. This will show how much stock came in or out, or is currently in stock. It also shows the cost of buying or selling this stock and the balance, as well as the overall value (for example, quantity × cost).

Tip

In an exam, you might be asked to enter simple information into an invoice, a statement of account or a stock card.

Here is an example:

STOCK CARD

Date	Reference	In			Out			Balance		
		Qty.	Cost ($)	Value ($)	Qty.	Cost ($)	Value ($)	Qty.	Cost ($)	Value ($)
1/4/19	Opening balance							50	10	500
4/4/19	Purchases	10	10	100				60	10	600
7/4/19	Sales				15	10	150	45	10	450
12/4/19	Purchases	28	10	280				73	10	730
18/4/19	Sales				42	10	420	31	10	310
24/4/19	Purchases	28	10	280				59	10	590
28/4/19	Sales				30	10	300	29	10	290
30/4/19	Closing balance							29	10	290

- On 1 April 2019, there were 50 items in stock valued at $500 (50 × $10).
- On 4 April, the company purchased 10 new items of stock. On 7 April, it sold 15 items. On 12 April, it then purchased 28 items.
- On 18 April, it sold 42 items of stock. On 24 April, it purchased a further 28 items. On the 28 April, it then sold 30 items. At the end of the month, it still had 29 items in stock, worth $290 at purchase price.

4.10

Evaluate the principles upon which insurance is based

Insurance is the process of transferring risk from one party (called the insured) to another (the insurer) for a price called the premium. This provides partial or full compensation for the loss or damage caused by certain events if they occur. It helps to reduce the risk associated with business operation, and provides compensation against fire, flood, theft, injuries, etc. Insurance is based on probability (the chances of something happening), whereas assurance is based on certainty.

Insurance involves paying premiums (regular payments) to an insurance company in return for financial compensation if the insured suffers a loss. For example, Jamal may pay an insurance premium of $30 a month to Better Insurers, to cover any damages or accidents resulting from the operation of his business van. Should his van become damaged (assuming it is being looked after and driven in a safe way),

Now try these

1. A business stocks just one item – industrial cleaning machines – which it sells to the cleaning trade. The business purchases industrial cleaning machines at $800. The following list details information about the stock:
   - On 1 December the business had 11 machines in stock valued at $8 800.
   - On 4 December it sold 2 machines.
   - On 7 December it purchased 10 new machines.
   - On 10 December it sold 15 machines.
   - On 13 December it purchased 20 new machines.
   - On 18 December it sold 17 machines.
   - It sold a further two machines on 20 December.
   - The business closed down for Christmas but recorded its stock balance on 22 December.

   Set out a stock card for this company's stock using the above data. The stock card should be made out for December 2019.

then Jamal will be entitled to financial compensation to cover the damages to the van.

A good example of a Caribbean insurance company is the Insurance Company of the West Indies (ICWI), which has been in existence for about 50 years. It serves clients in the Bahamas, the British Virgin Islands, the Cayman Islands, Jamaica, St Martin, St Kitts and Nevis, Turks and Caicos, and Trinidad and Tobago. The company provides general insurance as well as specialising in motor, property, marine engineering and accident insurance.

To buy insurance from this company, an entrepreneur or individual would request a quote for the type of insurance preferred. The quote would show the premiums that would need to be paid, and the cover provided. If the client wanted to proceed, he or she would then take out an insurance policy, which is a written document setting out the details of the **insurance contract**.

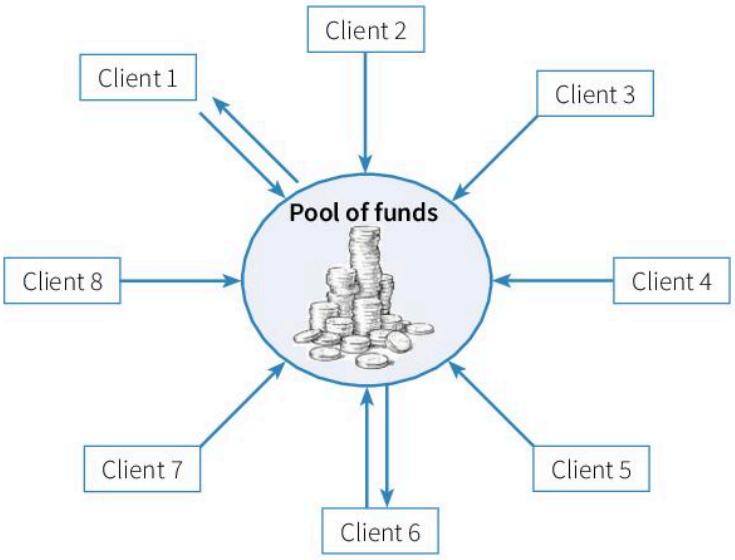
There are a number of key concepts associated with insurance, as discussed below.

Key term

Insurance contract: an agreement made with an insurer to pay premiums in exchange for cover, promising guaranteed payments in the case of a loss (subject to the terms of the contract).

Pooling of risks

Businesses and individuals take out insurance policies to protect themselves against unusual but potentially costly damages and losses. In the worst-case scenario, such as a fire in a factory building, the business owner could lose everything. Insurance provides compensation in the event of a loss. An important principle of insurance is that by paying a small and regular contribution (called a premium) to an insurance company, a very large sum could be paid out in compensation.



In this example, eight premiums are paid in and two claims are paid out

Most people who take out insurance will not need to make a claim in any given year. They pay premiums (regular sums of money) to the insurance company, who pools all of this money together. Then, when someone does make a claim, the insurance company can pay them compensation from this pool of premiums.

Over time, insurance companies have become very skilled at calculating the likelihood of losses occurring. They are therefore able to calculate how much to charge in premiums to cover any losses, as well as to cover the costs of running the insurance company and to receive a profit on top of this.

Insurance companies also pool risks by working together to cover very large risks. For example, this is the case with insurance for the oil fields in Guyana. Should a large-scale accident result from damage to these oil fields, then the insurance bill will be too large for a single insurance company to pay. Instead, the insurance companies pool the risks to offer joint cover. The term "re-insurance" refers to a situation where an insurance company shares some of the potential risk with other insurance companies.

Subrogation

Subrogation means "to take the place of". Therefore, the principle of subrogation means that compensation paid by the insurance company takes the place of the goods/property for which the claim is being made.

For example, Ashok Kumar owns a supermarket where some of the goods are damaged and stolen in a robbery. Ashok claims for the losses, and receives compensation from his insurance company (ABC Insurance). The damaged stock and any stock that is now retrieved by the police becomes the property of ABC Insurance. The rights to the stock are therefore subrogated to the insurance company, and the compensation has taken the place of the stock.

Proximate cause

"Proximate cause" is the original event that caused the injury or loss that is being claimed for. An insurance company will only cover events that fall within its policy terms and conditions. Therefore it has to identify the proximate cause to work out whether it should pay compensation for a loss.

For example, if stock from Clarke Fashion is damaged in its warehouse by a fire, then this will be covered in the company's insurance policy. However, if stock is damaged in a collision with another truck while being transported, where the other truck's driver is to blame, then Clarke Fashion's insurance company will not cover this claim. Instead, Clarke Fashion will have to claim for compensation from the truck's owner, because the proximate cause lies with the third party, and not within the company's insurance coverage.

Indemnity

The principle of indemnity involves putting someone back into a position that they were in prior to a loss occurring. Indemnity establishes how much compensation needs to be provided for a loss. This is fairly straightforward in the case of theft and fire damage, but it is much more difficult to calculate in cases relating to personal injury and loss of life.

To calculate indemnity compensation, the insurance company will look at previous cases as well as the personal circumstances of the

Key term

Utmost good faith: a principle relating to insurance contracts whereby it is legally required for all parties in an insurance agreement to disclose all information that might influence the other party's decision to enter into an insurance agreement with them.

Contribution: a principle whereby insurance companies will jointly contribute to the indemnity of the insured when a claim is made for a loss. The implication of this is that someone taking out insurance cannot make a profit out of a loss.

Insurable interest: this principle sets out that an individual can only take out insurance when he or she has a personal economic stake in an event or loss.

Liability: to be held legally responsible by law.

Negligence: failure to exercise a degree of care that would be taken by another reasonable person in the same circumstances.

individual involved. For example, if someone is injured at work, then indemnity will take into consideration how long the person is out of work, their current wage, the extent to which the accident impacts on other aspects of their life, if their **negligence** contributed to the accident, etc.

Utmost good faith

Utmost good faith is a very important principle, and sets out that all parties in an insurance agreement have entered into the agreement and disclosed all relevant information with absolute honesty. When taking out insurance cover, an individual or business should not hide facts that are pertinent to the setting of premiums and providing compensation.

For example, when taking out motor insurance, the customer needs to tell the insurance company whether he or she has any infringements on their driving licence, and whether he or she has been involved in previous accidents. Failure to act with "utmost good faith" (for example by lying about your driving history) might lead to the cancellation of the insurance contract, so that compensation will not be provided for the loss.

Contribution

Contribution is a basic principle of insurance which means that someone taking out insurance cannot claim multiple times for the same event with multiple insurance companies.

For example, if Mr Clarke insures his factory premises with three separate insurance companies and his factory burns down, then he can only claim fire insurance from one of the three companies. If he claimed from all three for the same event (the fire) then he would be making a fraudulent claim.

Typically, if a customer has insured with multiple companies, then the customer would claim for an event (such as a fire) from one company (for example, Sunnyside Insurance), which would pay out (assuming there are no unusual circumstances). Sunnyside Insurance could then claim a contribution from the other two insurance companies, so that effectively they would pay a third each. The term "contribution" therefore relates to the contribution claimed by the original insurance company from other insurance companies where this multiple insurance takes place. However, it is usually unwise to take out multiple insurances in this way, as the customer would be paying three sets of premiums for one single coverage.

Insurable interest

You can only insure something in which you have an **insurable interest**, for example where you stand to make a personal loss, or in the case of a business, stand to make a business loss. For example, a stranger can insure his or her own life (because he or she has an insurable interest in it), but he or she cannot insure *your* life. The same

is true for businesses. A business can insure its own factory because it has an insurable interest in it, but it cannot insure the building of a neighbouring firm or a competitor.

Tip

Make sure you can explain (using examples) the insurance principles of utmost good faith, insurable interest, subrogation, contribution, pooling of risk and proximate cause.

Now try these

1. Which of the principles of insurance are involved in the following examples?
   - (a) Alleyne's is able to claim on its freezer insurance because the details of the claim are truthful and give an accurate estimation of the loss involved. Because of a power outage, the ice-cream stock in the freezers has melted.
   - (b) Alleyne's has insured its stock with three separate insurance companies. However, it is told that it can only claim from a single insurance company.
   - (c) The company next door to Alleyne's also tried to claim for compensation because fewer people are visiting the area to buy ice cream.
2. **Business in action**: Create your own examples for a local business to illustrate the principles of indemnity, subrogation and proximate cause.

4.11

Explain the various types of insurance policies

A distinction is sometimes made between life insurance policies and non-life insurance policies. There is a range of both types of insurance policies available.

Life insurance policies

There are three main types of life insurance policy:

- A term policy pays out if death occurs during the term of the policy. Such a policy is typically taken out for a period of between one and thirty years. A level term policy entitles the policy holder (or, more accurately, whoever benefits from their estate) to a sum of money (a death benefit) which stays the same throughout the life of the policy. Most term life insurance policies are level term. A reducing term policy means that the sum of money will reduce the longer the policy is held.
- A whole life/permanent policy pays out whenever a person dies, regardless of how long they live. Typically, a sum of money (a death benefit) and the premiums will stay the same.
- An endowment policy pays out a lump sum after a specific term, or on the death of the policy holder. Some endowment policies also pay out if the person is critically ill.

Now try these

1. In what circumstances would a shop selling children's toys require product liability insurance? In what circumstances do you think the firm might not be able to claim on the product liability insurance, even though it had paid the premiums?
2. Why might the organisers of a carnival need to take out public liability insurance? What sorts of precautions and safety measures do you think the organisers would need to put in place to ensure they can make a claim on their insurance policy?
3. Why are cyber and digital risks on the increase? Why might a business need to insure its website and customer details/ records against cyber crime?

Non-life insurance policies

There are many types of non-life insurance policies that are relevant to business, which involve an insurance contract between an insurance company and the insured. The size of the premiums will depend on the likelihood of the risk and the possible amount of compensation that the insurance company may need to pay out. Key types of insurance are:

- Buildings, fire and equipment insurance: these are important if a business does not want to have to close down for extended periods of time if the insured event occurs. The compensation from an insurance claim will enable a business to repair, rebuild or buy new equipment.
- Product liability insurance: this will cover a company against harm resulting from the use of one of its products, providing the company has complied with all the relevant legislation relating to the development and production of that product.
- Fidelity insurance: this will cover a company against harm resulting from dishonesty or fraud committed by any of the company's employees.
- Vehicles insurance: this insures company vehicles and their drivers against damage caused by accidents while on company business. The company will be able to make a claim provided that the vehicles are properly serviced and used, and provided that drivers are suitably trained and the company has checked that they are competent. Company vehicles would also need to be taxed and to have appropriate road worthiness certificates.
- Marine/aviation insurance: similar to vehicles insurance, this insures cargo, freight, aeroplanes, etc. – any and all elements relating to marine/aviation business.
- Employer's liability insurance: this covers accidents to employees on company premises or while going about company business. Again, providing the company has taken the necessary steps (such as health-and-safety measures and adequate training of employees), then it will be able to use its insurance to cover against claims by employees.
- Public liability insurance: this is insurance against accidents or injury caused to the public where the company has done everything in its powers to prevent this from happening, for example when a member of the public trips and hurts themselves on company premises. The public liability insurance will enable the company to make a claim on the insurance to cover damages owed to a member of the public.
- Cyber and digital risks insurance: cyber attacks on company data have become one of the major causes of business loss in recent

years. A business is able to take out insurance against such risks, and will be covered provided it has put in place the checks required by the insurance company, such as building firewalls and hiring specialists to protect them against computer hacking.

4.12

Explain how insurance facilitates trade

The main advantage of insurance to a business or person is that it reduces the risk that they are taking. Business is by its nature a very risky affair, and there are certain things that you cannot insure against. For example, a company cannot insure against not making a profit. If you have a good business idea and conduct business in a sound way, then you stand a good chance of making a profit, but this is not guaranteed. However, there are things that you can insure against which reduces your risk.

For example, transport firms such as airlines and shipping lines can insure their fleets by taking out aircraft insurance or marine insurance. When trading internationally, a company can take out freight insurance so it can claim compensation if a parcel or container is lost or damaged. Armed with this knowledge, a business person will be more inclined to engage in trade because insurance has reduced the risk of financial loss.

Insurance can also provide protection against disastrous events such as accidents, fire, employee injuries, etc. All of these can be just as devastating to a company as not making enough profit. Insurance can ensure continuity for a company, since it helps in restoring a business to its former position before the unforeseen event.

The pooling-of-risk principle that we outlined on page 136 explains how insurance risk can be shared. If there are 1 000 exporters exporting goods from Barbados every day, and each one of them is taking out insurance associated with exporting, then the premiums they pay will help to cover losses made by individual firms, for example when the cargo of one firm fails to arrive at its desired location. The reality is that accidents will only happen in a relatively small number of cases, but you can never be sure that yours won't be the one where the loss occurs. Therefore, insurance reduces the risks associated with doing business and trading.

There is a specific trade insurance called trade credit insurance that helps exporters. It works in this way.

- The exporter pays a premium to the insurer.
- The exporter then sells goods on credit to a foreign buyer.

- The exporter waits for payment from the buyer under the terms of the transaction. However, if the buyer fails to pay up within a set period of time (often 180 days) then the insurer will compensate the exporter up to a certain percentage of the sale price, such as 75 per cent of what is owed.

With trade credit insurance, exporters can have greater confidence that they will be able to make a profit from trading (although not as much as if buyers pay up quickly). The benefits of trade credit insurance are that:

- a country sells more exports, earning more international currency
- exporters face less exposure to risk
- exporters will make a return on their exports
- the earnings of exporters are more predictable.

Now try these

1. In what ways do you think insurance encourages business to be more adventurous in engaging with international trade?
2. Why might an exporter take out trade credit insurance, or decide not to take out trade credit insurance?
3. **Business in action**: Carry out an online check to see if there is an insurance company offering trade credit insurance in your country. What are the main details of the trade credit insurance that it currently offers?

Develop your exam skills

PAPER 1

1. When a person entering into a contract agrees to do so in return for a particular promise or performance, the promise or performance is referred to as:
   - A Consideration
   - B Termination
   - C Discharge
   - D A specialty contract

2. An "offer" becomes legally enforceable when:
   - A It appears to be fair
   - B It is set out in a clear way
   - C It is accepted
   - D It is promoted by the offeror

3. Which of the following involves an intention to form legal relations?
   - A A student tells his teacher that he will complete his homework on time
   - B A teacher signs an agreement to purchase a sound system from an electrical outlet
   - C A minor signs a cellphone contract without her guardian's knowledge
   - D A teacher contemplates purchasing a new car after receiving a pay rise

4. A "standard contract" in the construction industry would:
   - A Outline specific terms particular to that contract
   - B Not be enforceable in law because it is not a specialty contract
   - C Not set out any terms and conditions that are binding on the parties involved
   - D Be based on a common set of terms and conditions that can be widely used

5. Any provision that forms part of a contract is referred to as:
   - A A term
   - B A specialty contract
   - C An acceptance
   - D An offer

6. A book publisher agrees to publish a new book for an author on a certain date, but later states that it will not be able to publish the book by that date because it has been contracted to do too many other jobs. What type of breach does this represent?
   - A Breach by performance
   - B Anticipatory breach
   - C Breach by frustration
   - D Breach by agreement

7. When an insurance company pays out on an insurance claim for an event where someone has taken out multiple insurances, the insurance company will:
   - A Reduce the amount of future premium charged to the insured party
   - B Seek contribution from other insurance companies that have insured the same event
   - C Indemnify the person taking out insurance by only a small fraction of the claim
   - D Refuse to provide indemnity as a fraudulent act has been committed

8. Negligence (in contract law) means to:
   - A Be careless in carrying out an action
   - B Fail to take the standard of care one would expect from a reasonable person
   - C Fail to take out insurance, particularly life insurance
   - D Complete one side of a bargain but not particularly well

9. To indemnify in insurance means to:
   - **A** Provide some compensation to someone making an insurance claim
   - **B** Take out an insurance policy with an insurance company
   - **C** Return the insured to the position he or she was in before suffering a loss
   - **D** Offer insurance to a party requiring insurance

10. A hotel suffers fire damage to some of its rooms, and there is damage to some of the beds and chairs in the hotel. The insurance company provides compensation so that the hotel can buy new beds and chairs. The damaged beds and chairs then become the property of the insurance company because of the principle of:
    - **A** Utmost good faith
    - **B** Subrogation
    - **C** Proximate cause
    - **D** Insurable interest

PAPER 2

1. Shantae's grandfather promised to give her a tablet computer on her thirteenth (13th) birthday. On turning thirteen (13), Shantae reminded her grandfather of the request and he stated that he was not obligated to give her the tablet as it was simply an agreement. However, Shantae insisted that it was a valid contract.
   - **(a)** Define the term "contract". **(2 marks)**
   - **(b)** State three (3) elements of a simple contract. **(3 marks)**
   - **(c)** Explain the difference(s) between an agreement and a contract. **(2 marks)**
   - **(d)** Did Shantae and her grandfather have a valid contract? Give reason(s) for your response. **(3 marks)**

2. **(a)** Define the term "agreement". **(2 marks)**
   - **(b)** Explain two (2) differences between a simple contract and a specialty contract using appropriate examples. **(6 marks)**
   - **(c)** State two (2) ways that a contract may be terminated. **(2 marks)**

3. Superstar Sound System was contracted by Redim Man, a promoter of dance hall music, to play at his annual birthday bash on 23 October 2018. On the day of signing the contract, he paid twenty-five per cent (25%) of the fees to the manager, and agreed to pay the balance on the day of the show.

   One day before the date of the show, the government declared the area in which it was to be held a "zone of special operation" under its crime-fighting plan. This measure made it a criminal offence to gather in public spaces after 7 p.m. Subsequently, Redim Man called Superstar Sound System to inform them that in light of the government's declaration, he would have to cancel the show. The manager of Superstar Sound System became furious and decided that they would sue Redim Man for breach of contract.
   - **(a)** **(i)** Define the term "breach of contract". **(2 marks)**
     - **(ii)** State two (2) remedies for breach of contract. **(2 marks)**
   - **(b)** Identify three (3) characteristics of a valid contract that are present in the arrangement between Superstar Sound System and Redim Man. **(6 marks)**
   - **(c)** Explain three (3) ways in which a contract may be terminated. **(6 marks)**
   - **(d)** Advise Superstar Sound System whether they could succeed in a court of law against Redim Man. Give reason(s) for your answer. **(4 marks)**

4. Tom Strokes advertised his Volkswagen motor car in the newspaper for sale for $250 000. John Singh saw the advertisement and telephoned Mr Strokes immediately, offering to buy the car for $240 000 before the end of the business day. Later that afternoon, Mr Singh turned up at Mr Strokes' address with $240 000 to purchase the car, but was informed by Mr Strokes that the car had already been sold. Mr Singh became furious and threatened to sue Mr Strokes for breach of contract.

(a) Define the term "contract". **(2 marks)**

(b) **(i)** Explain the meaning of the term "breach of contract". **(2 marks)**

(ii) Discuss two (2) ways that the court may settle a "breach of contract" dispute. **(4 marks)**

(c) Explain two (2) ways in which a contract may be terminated (use different examples to those that you used when answering question 3c above). **(4 marks)**

(d) **(i)** Discuss whether there was a valid contract between Mr Strokes and Mr Singh, giving reasons for your answer. **(4 marks)**

(ii) Advise Mr Singh whether he is likely to succeed in a court of law against Mr Strokes, giving reasons for your advice. **(4 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

5 Production

Setting the scene

The production of rice in Guyana

Agriculture continues to be a major industry in the Caribbean, providing home-grown foods and food for export. Nowhere is this truer than in Guyana, where rice production is second only to sugar, and provides a livelihood for 120 000 farmers or 20 per cent of the population. Rice production combines the efforts of the private and public sectors. The government runs the irrigation systems and rice processing mills (of which there are over 100), whereas the farms are largely privately owned.

The Guyana Rice Development Board is responsible for coordinating activities in the rice sector. There are a large number of very small farms with less than three hectares of land, where rice is largely sown and harvested by hand. In 2018 to 2019, Guyana produced one million tonnes of rice, most of which was grown by diverting water from streams, rivers and wells. Rice is well adapted to the wet soils that are common in the lowlands, as well as in the high-rainfall savannas.

There are many processes involved in the production of rice, including sowing, cultivating, milling, shelling, grading and drying, as well as the storage, transport and sale of rice. On large farms in Guyana, the production is highly mechanised and uses large tractors, whereas on very small plots much of the work is done by hand. On larger farms, harvesting is done by combine harvesters (large harvesting machines), and the rice is then transported in bags or in bulk to the mills. There are two crops a year, the first of which is harvested between February and May, and the second between September and December. Aircraft are used for spraying fertiliser as well as weed- and pest-control sprays.

Two of the main markets for Guyana-grown rice are Mexico and Cuba. Guyana produces white rice and parboiled rice (easy-cook rice). Increasingly, Guyana is producing parboiled rice (rice that has been soaked, steamed and dried so that it is easy to cook). Markets like Trinidad principally want to buy parboiled rice. The Guyana Rice Development Board carries out research to improve the types of seeds grown and the yield from the rice, as well as seeking to find varieties that are more resistant to pests.

1. What do you think is meant by the term “production”? Why is rice cultivation considered to be production?
2. Becoming more productive involves achieving more output from the same amount of resources. How has Guyana sought to become more productive?
3. What types of machinery and equipment are used in rice production?
4. Some rice farms are very small while others are large. What do you see as being the benefits of being a small rice cultivator, and the benefits of being a large rice cultivator?

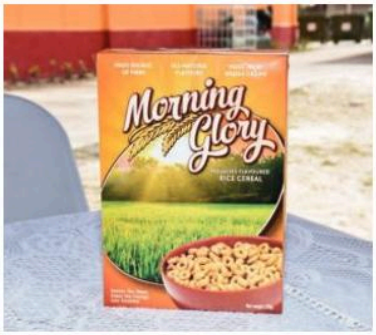
Objectives

After reading this chapter, you should be able to:

1. Identify factors in the production of goods and services 148
2. Identify industries developed from the natural resources of Caribbean territories 149
3. Differentiate between production and productivity 152
4. Explain the importance of productivity 154
5. Explain the role of capital in production 157
6. Differentiate among types of capital 158
7. Classify the different types and levels of production 160
8. Describe the characteristics of cottage industries 168
9. Outline the functions of small businesses 169
10. Discuss the advantages and disadvantages of small business 171
11. Explain how a business grows internally and externally 175
12. Outline the opportunities for and benefits of developing linkage industries 178
13. Explain the effects of growth on a business 179

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.



Morning Glory is a rice cereal manufactured in a factory in Guyana

5.1

Identify factors in the production of goods and services

The **factors of production** are what make the business work. For Morning Glory, these factors are land, labour, capital and enterprise.

In the plant, the land includes the site on which the factory is built, as well as the surrounding fields. The employees who work for the business make up the labour. The capital is the buildings and machinery that are used to make the cereal. The final factor is enterprise, which is also known as entrepreneurial skill. This is a skill that successful entrepreneurs have: to take a risk in bringing the other factors of production together to produce goods in order to make profits.

Over the years, the four factors of production have come to mean more than just the examples used above.

- Land or natural resources refers to all gifts of nature.
- Labour is used to refer to all of the physical and mental contributions of an employee, so it is more than just the physical effort of digging coal or making car parts. For example, it also includes the mental effort of an accountant or the services provided by a bank clerk. Labour can be classified in many different ways, such as skilled, semi-skilled/unskilled, managerial/professional, etc. Many factors affect the supply of labour, such as education, transport, economy, migration, etc.
- Capital includes all of the man-made items that go into producing other things, such as manufacturing machines, tools and buildings.
- Enterprise brings all of the other factors together to produce goods in order to make profits while taking risks.

Key term

Factors of production: the resources needed by businesses to produce goods and services.

Now try these

1. Ramesh owns a small sawmill producing wood from forest timber. He supplies the wood to furniture makers, and he employs two workers to transport and load the timber, three carpenters, and two workers to package the wood. Ramesh's sawmill is based near a river, which he uses to move some of the wood to the sawmill. He uses advanced cutting equipment, and he owns two lorries as well as the sawmill buildings. Identify the land, labour, capital and enterprise in Ramesh's enterprise.
2. Which of the factors of production do you believe to be the most important to Ramesh's enterprise and why?
3. If the receipts to owners of land are called "rent", and the receipts to suppliers of capital are called "interest", then what would we call the receipts to owners of labour and enterprise?
4. **Business in action**: Talk to the owner of a small local business. Find out how the business uses its land and capital, the type of labour employed, and the enterprise skills needed to ensure that the enterprise is successful.

5.2

Identify industries developed from the natural resources of Caribbean territories

Many industries (for example, **manufacturing** and service industries) rely on raw materials, so it is helpful when a country has an abundance of **natural resources**. Although the Caribbean is blessed with many different types of natural resources, the land area of most Caribbean nations is relatively small when compared with, for example, South American and North American countries, therefore there is only a limited supply of these natural resources. The table below outlines some key examples of natural resources found in the Caribbean.

Key term

Manufacturing: making or finishing a raw material (or semi-manufactured parts) into a finished good.

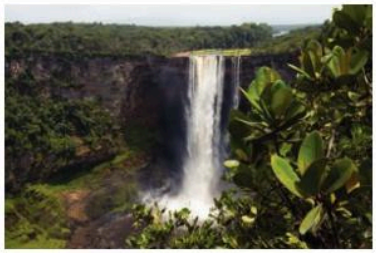
Natural resources: materials that occur naturally in the earth or its atmosphere, such as water, air, mineral deposits, fish stocks, timber, etc.

Type of resource	Caribbean countries where these resources can be found in sufficient quantities to provide large-scale extraction	Major industries that use the resource
Bauxite and alumina	Jamaica	Mining, aluminium
Blue Mountain coffee	Jamaica	Agriculture, hospitality, tourism
Cement	Barbados, Dominica, Guyana, Jamaica, Trinidad and Tobago	Construction
Clay and limestone	Barbados	Pottery, tourism, marble, ceramics
Fish	Bahamas, Barbados, Grenada, Jamaica, Trinidad and Tobago	Agriculture, hospitality, fishing
Gold, diamonds and precious stones	Guyana	Tourism (jewellery), dentistry, financial, IT
Iron and steel	Trinidad and Tobago	Construction, transport, manufacturing
Oil and gas	Guyana, Trinidad and Tobago	Transport, pharmaceuticals, farming, manufacturing
Pumice and mineral springs	St Lucia	Manufacturing, agriculture
Rice	Guyana	Agriculture, hospitality
Sand (quarry sand not beach sand)	All	Construction
Sea Island cotton	Barbados	Textiles
Sugar cane	Barbados, Guyana, Jamaica, Trinidad and Tobago	Agriculture, hospitality
Sun, sea and sand	Throughout Caribbean coastline territories	Tourism, hospitality
Tobacco	Dominican Republic, Cuba	Agriculture, hospitality, tourism
Tropical fruits	Guyana, and in smaller quantities in many other countries	Agriculture, hospitality
Urea and nitrogen	Trinidad and Tobago	Agriculture, manufacturing
Yams	Jamaica	Agriculture, hospitality

A good example of a Caribbean natural resource is Pitch Lake at La Brea in Trinidad. This is the largest natural deposit of asphalt in the world, being over 100 acres wide. The lake provides a rich resource for the construction of roads in the Caribbean. There is enough asphalt in the lake to last for several hundred years, and Trinidad exports about $3 million worth to other countries each year.

Tip

While you are studying this unit, identify the natural resources that are particularly plentiful in your own country and, if possible, view sites where exploitation of these resources is taking place. This will help you to memorise examples for use in your exams.



The Kaieteur Falls are a key tourist attraction in Guyana, generating income for the country

Beaches, national parks and tourism services

Beaches are one of the greatest natural resources in the Caribbean, and bring millions of dollars in revenue to the Caribbean economies.

Another natural resource found in the Caribbean is national parks, such as the Kaieteur National Park in Guyana, which is nearly 60 000 hectares in size and contains the world's largest single-drop waterfall. The park is a key tourist attraction with its trails, numerous waterfalls, and plentiful species of birds and animals. In Anguilla, the Fountain National Park celebrates the lives of the Amerindian tribal people who originally lived there.

Eco-tourism is an important industry in the Caribbean, and it involves limited and controlled access to ecological and cultural heritage sites, as well as the prevention of mass tourism. Jamaica has a National Heroes Park, which is a botanical garden of 50 acres and the largest open space in Kingston. Other Jamaican national parks include the Blue Mountains National Park, which is a nature reserve and area of natural beauty. National parks enable countries to benefit from unspoiled nature and cultural history, and to contribute to the conservation of a high-quality way of life for the present and future generations.

Caribbean industries that have developed from agricultural produce, mining, fishing and other areas

Natural-resource extraction (such as mining, farming and fishing) provides the basis for many other industries. There are many sectors that benefit from these resources, as outlined in the diagram below.

Examples of some of the natural resources extracted in the Caribbean include:

- Sugar cane: refined through manufacturing processes into grain sugar, demerara sugar, white sugar, molasses, syrups, and sweeteners in food and drinks.
- Fish: made into ready-to-serve cooked dishes and restaurant food, as well as tinned and smoked food sold through retail outlets.
- Alumina, cement, gypsum, lime, gravel, shale, silica and stone: these are all quarried in Jamaica, and provide a healthy base for building and construction industries in Jamaica, other parts of the Caribbean and beyond.
- Coconuts: grown throughout the Caribbean, they provide the basis for many products including:
  - coconut oil (used in cooking and in cosmetics)
  - coconut water (promoted as a healthy drink and a sports drink)
  - dried coconut (used in baking, e.g. as desiccated coconut)
  - coconut leaves (used as a roofing material)
  - coconut tree trunk (used as timber to make houses and bridges)
  - coconut "coir" – the fibre on the outside of the coconut (used to make ropes and doormats, as well as mulch and soil).

The coconut is a versatile natural resource grown throughout the Caribbean

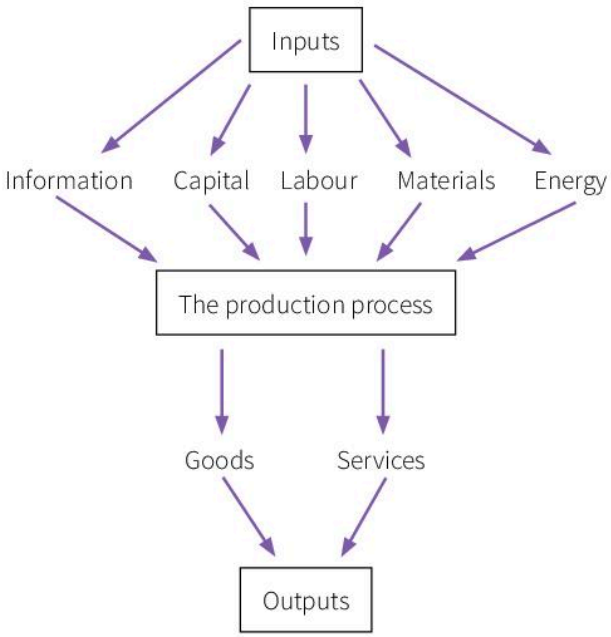
Now try these

1. Can you identify any other natural resources that are plentiful in your home nation but missed from the table on page 149?
2. Carry out some online research to find out about the mining of limestone and its use in the manufacture of cement by the TCL Group of companies. These companies include Arawak Cement Company in Barbados, TCL Guyana Inc. and the TCL Trading Company in Anguilla.
3. Identify the main national parks in your country or a neighbouring country. How big are these areas and what is the major focus of each park? Explain how these national parks should be seen as part of the production process in the way that they improves people's quality of life, as well as bringing in tourism revenues.
4. Identify a natural resource in your country that is extracted through agriculture or mining. Then identify all the different uses of this natural resource, and the manufacturing involved.

5.3

Differentiate between production and productivity

This unit will outline the difference between production and productivity.



Production involves making resources more valuable. The diagram here shows the production process, and how various business inputs are made into more valuable outputs.

A number of operations (organised work tasks) are usually carried out to add value when processing resources. "Operations management" is therefore the term that describes the process of managing these activities.

For example, a restaurant in Trinidad that serves chicken curry, rice and peas, will bring fresh chicken, rice, peas, spices and other ingredients into the restaurant as the main raw materials. Chefs then work with these materials to produce the final dishes. The chefs carry out operations such as taking the ingredients out of the stores, cutting up and cooking the chicken and vegetables, and putting the prepared food onto plates with roti and other accompaniments. The customers make an order for food, which is then delivered to their tables or prepared as take-away. The production process therefore involves converting the food materials into the finished chicken-curry dishes.

Key term

Production: the process of using materials (inputs) and transforming them in some way to produce goods and services (outputs).

Productivity: a measure of how much output can be produced from a given level of input. A unit of input is described as being productive if it can produce a relatively large output.

Production and productivity

Production means making goods or services out of resources. **Productivity** is a measure of how much output can be produced from a given level of input, e.g. how many garments can be sewn by a garment maker in one hour. A unit of input is described as being productive if it can produce a relatively large output. Productivity increases when resources are used well. High levels of output can be achieved by a relatively small number of staff when the staff are working efficiently.

The productivity of a company can be measured by the following calculation:

$$\text{productivity} = \frac{\text{quantity of output}}{\text{quantity of inputs}}$$

Measurements are often carried out to determine the productivity of particular resource inputs. This is often the case with labour. For example, if a Honda car plant produces 500 cars per hour with 1 000 employees,

then the labour productivity would be 0.5 cars per hour (this figure indicates the quantity produced by one worker):

$$\text{Labour productivity} = \frac{500 \text{ cars per hour}}{1\,000 \text{ employees}} = 0.5 \text{ cars per hour}$$

If the number of cars increased to 600 per hour, productivity could be said to have risen to 0.6 cars per hour:

$$\text{Labour productivity} = \frac{600 \text{ cars per hour}}{1\,000 \text{ employees}} = 0.6 \text{ cars per hour}$$

There are a number of ways of increasing productivity. These include:

- Organising work more efficiently (for example, the layout of machines in a factory could be improved to reduce wasted time).
- Using more productive resources (for example using more modern machinery or training employees to work more efficiently).
- Using **automation** and **computerisation**. Many factories today employ robots and automatic machinery (for example electronic eyes that check the quantity of fluid in containers and stop the filling process when the containers are full).
- Using approaches that motivate staff to work harder (for example offering bonuses, job rotation and job enrichment).

In some areas of work – particularly service jobs – it is not easy to increase productivity in a measurable way. Services often involve care and attention to customers, such as the work of dentists, doctors and accountants. In these cases, productivity should be measured not just by the *quantity* of work done, but also by its *quality*.

Key term

Automation: the technology applied to producing goods without human input (although humans might operate the control panels that monitor automatic production).

Computerisation: to use a computer to do tasks (such as carrying out calculations and planning operations) that were previously carried out by people.

Tip

Make sure you can distinguish between the term "production", which means the output produced, and "productivity", which measures the output per unit of input. Rising productivity means that a company can produce more with the same number of inputs.

Now try these

1. The output of Better Bottling Manufacturers has increased from 100 000 bottles to 110 000 bottles this year. The marketing manager says that this shows productivity has increased, and wants to put this into some marketing literature. However, the production manager says that productivity has actually stayed the same. What point do you think the production manager is trying to make?
2. In 2018, a company producing solar panels made 1 200 solar panels with 100 workers. In 2019, this increased to 1 500 solar panels with 105 workers. Explain how production and labour productivity altered between 2018 and 2019.
3. A company producing a variety of canned fruits and vegetables has been having problems with some of its production lines because of power outages, and because the machinery is

getting older and requires more frequent repairs. It is also having difficulty recruiting skilled labour. What solutions can you put forward which might enable the company to increase its productivity?

4. **Business in action**: How might it be possible to increase productivity in the following businesses and government departments?
   (a) A private school.
   (b) The government's income tax collection department.
   (c) A fish-frying business.

5.4

Explain the importance of productivity

In the case study at the start of this chapter (page 146), we saw how the Guyana Rice Development Board is carrying out research to increase the yield (productivity) of rice by experimenting with new varieties, such as those that are more resistant to pests. National governments are keen to increase productivity because it means that their country becomes more competitive, producing greater and better output. Rising productivity leads to rising incomes and rising export sales as well as more profits for domestic firms. Key government policy will always relate to increasing the productivity of labour (making a country's people more productive).

There are a number of ways of making labour more productive, therefore increasing the productivity of labour as well as the overall levels of production. These are discussed below.

Improving the labour supply

Labour supply refers to the number of hours that the labour force is prepared to work at given wage rates. Labour supply can be increased by raising wages. As wage rates increase then people will be inclined to work longer hours to benefit from higher incomes. However, once their income reaches a certain level they may prefer not to work any additional hours because they are earning sufficient (through their now higher) wages and hence may prefer not to lose valuable leisure time, which they are able to enjoy more because they can afford to engage with new leisure pursuits (with their higher incomes).

In examining labour supply, we need to consider not just how long people work but also how hard and effectively they work.

Labour productivity should increase when employees work longer and harder. However, there is another ingredient to rising labour productivity:

employees should also work "smarter", for example they need to use their time more efficiently to produce more. If an employer can get the workforce to work "smarter", this acts as motivation because it is no longer necessary to work so hard or so long to get the best results.

The table below shows three ways to increase production and productivity.

	Effect on production	Effect on productivity
Employees work longer	Level rises	May have no impact
Employees work harder	Level rises	Will be some increase
Employees work smarter	Level rises	Level rises

Human resources development

Human resources are the employees who make up the workforce of an organisation. Human resources development involves improving the contribution made by employees at work by providing opportunities for them to become more effective and motivated. The human resources department of a company will create systems such as **appraisals** and **appraisal interviews** to identify ways in which employees are seeking personal **development**. They can then provide employees with regular opportunities to take up learning and other development opportunities. Better-trained workers tend to work faster and more efficiently.

At a nation-building level (country-wide), human resources development involves helping people to become more effective – to achieve improved targets and results – through:

- An improved education system, where people stay in formal education longer, and are able to obtain more qualifications.
- Improving the health system – for example, by updating hospital facilities and recruiting more doctors – as a healthy population is a more productive population.
- Improving working conditions, so that workplaces are safer, healthier and more motivating. Key variables include work temperatures, the number of accidents at work, the length of work breaks, how flexible working hours are, etc.

There are a number of ways that firms can improve the quality of the human resources they employ. Examples of these would be:

- Training and education courses specifically designed to meet job requirements, so that employees can make a better contribution to meeting the firm's objectives. These could be coupled with development opportunities for employees that would enable them to meet their own personal objectives and aspirations.
- Health initiatives such as health insurance, safety training and recreational opportunities at work (e.g. by providing employee sports facilities and rest areas).

Key term

Appraisal: a formal evaluation of an employee's performance over a particular period.

Appraisal interview: a situation where an employee usually sits down with a line manager to identify improvement targets and to discuss whether previous targets have been met.

Development: individual improvement in a work context, where the employees are allowed to identify ways in which they want to be helped to learn and to develop new skills and capabilities.

- Improved working conditions, for example through offering longer breaks during the working day or better maternity breaks.

Importance of a positive work ethic

Productivity levels also depend significantly on the attitude that employees have to their work, and how the **work ethic** varies between individuals. In July 1997, the CARICOM Heads of Government sought to define the ideal Caribbean person at their meeting in Montego Bay. One of the key ingredients of such a person was that they should have a "strong work ethic". A strong work ethic is central to effective business and nation building, as well as building a strong Caribbean region. If people work hard for themselves and for others, they will be productive.

Key term

Work ethic: a belief in the importance of work and that hard work is fulfilling.

Use of capital to increase productivity

In Unit 5.5 below (page 157) we examine the importance of capital. Capital relates to the resources used by a business (such as machinery, equipment, computers, tools, etc.) to produce goods. Capital can also be used to create other capital goods, such as machines and machine tools. Using capital well enables labour productivity to increase. For example, using a more up-to-date production line with automatic machinery at Grace Foods would enable employees to produce more goods, and therefore increase labour productivity.

Land use and declining productivity in the region

Deforestation in Haiti has reduced the land's productivity

In some respects, human development has led to falling levels of productivity in the Caribbean region. For example, studies such as the Census of Marine Life show that coral populations and coral reefs have suffered from people living in close proximity to the reefs, resulting in a loss of coral and reduction in fish populations (a decline in coral productivity). Similarly, deforestation has led to serious problems. For example, Haiti has been largely deforested as a result of nearly all of the trees being chopped down to create charcoal cooking fires or for other uses. This loss of trees reduces the land's productivity.

In Barbados, water scarcity is a pressing issue. Barbados is one of the highest-ranking water-scarce countries in the world, with agriculture and private use being the largest users of water. The growing tourist industry also impacts substantially on water availability. Water use in Barbados is greater than what is available naturally. This therefore impacts on productivity because most industries require water, and a lack of water leads to an inability to produce to full capacity.

Another key issue for countries like the Dominican Republic, Haiti and Cuba is that electricity outages occur fairly frequently. This is because the size of domestic demand is much bigger than the ability of these

countries to afford "sources of energy" (much of which are imported). Lack of electricity leads to falling productivity because without power, most industries grind to a halt. Land and resources need to be used sustainably and at a workable level, otherwise productivity falls.

Now try these

1. Labour is most productive when it is combined with other resources that are effective. Identify three resources that can be combined to enhance the productivity of labour. In each case, explain how this resource could be used to enhance labour productivity.
2. Identify two methods of increasing labour supply in a country that suffers from shortages of particular types of skilled labour.
3. How can human resources managers help to make labour more productive?
4. **Business in action**: Do you believe that people in your country have a positive work ethic? What evidence would you put forward to support your belief?

5.5

Explain the role of capital in production

The term 'capital' typically refers to the machinery, tools and buildings that a business uses to produce other goods. A capital-intensive plant or industry is one that uses a lot of machinery and equipment, for example an automated car factory. Increased use of capital often means that a lot more output can be produced, because capital can be substituted for labour. For example, substituting a crop-cutting machine for men cutting the crop with cutlasses will hugely increase how much can be cut.

Capital can be used in most industries to increase productivity and production. For example:

- Oil production in Trinidad has benefitted from deep-sea drilling using **oil platforms** out at sea. The drill bit is lowered from an oil platform down to the sea bed, where it cuts through rocks until deposits of oil and gas are found. The release of pressure brings the oil and gas to the surface. From here, it is transported by oil pipelines to oil refineries. Platforms, drills, pipelines and refineries are all examples of capital.
- Retailing is a capital-intensive business throughout the Caribbean. Large supermarkets and other large retailing stores require a lot of capital in the form of large buildings, large display units, **electronic point of sale (EPOS)** technology, state-of-the art loading bays, and computerised ordering systems. Of course, there still exist many

Tip

Make sure you can explain how increased productivity benefits a specific country's economy, as well as businesses within that country. For example, rising productivity makes a country more competitive, therefore boosting export sales and helping to create more output and employment in an economy. Firms benefit because they become more competitive, and are able to reduce costs relative to revenue. This enables them to make more profit, and to plough some of the profit back into improving productivity still further.

Key term

Oil platform: an offshore oil-drilling rig made up of a large structure, enabling the drilling of oil for exploration and extraction purposes, as well as the ability to store and process petroleum.

Electronic point of sale (EPOS): a computerised system for recording sales in a retail outlet using a laser scanner to read the barcode on a product.

Key term

Mom and pop store: a small retail business that is typically family owned and run.

Now try these

1. In addition to the industries listed above, identify two other industries and explain how capital is used to improve production in these industries.
2. Some industries are described as being capital intensive and others as labour intensive. Can you identify two capital-intensive industries in your country and two labour-intensive industries?
3. **Business in action**: Contrast production methods used in a specific industry in your country with production methods used in the same industry in the United States. Which country uses the most capital-intensive production methods? What additional capital is used in that country?

smaller "**mom and pop stores**" which are less capital intensive, but every Caribbean country has shopping malls and supermarkets that require a lot of capital.

- Air transport is another capital-intensive industry. Large airport terminals have sophisticated radar and landing facilities, conveyor belts, flight check-in systems and loading bays, as well as large aircraft capable of intercontinental travel.

Capital can be used to undertake production that labour would not complete in a timely manner. Capital reduces the need for labour and enables work to be done far more quickly. Nowhere is the contrast clearer than when comparing a labourer digging a trench with a pick-axe and shovel to a machine operator using a mechanised trench digger; or when comparing the harvesting of crops by gang labour to harvesting similar crops with a combine harvester.

5.6

Differentiate among types of capital

The term "capital" is used in a number of senses. In Unit 5.5, we identified capital as the machinery, tools and buildings that a business uses to produce other goods. We call this type of capital "physical capital". Capital can also refer to "financial capital", for example the money (finance) that is used to set up and run a business. All businesses need financial capital if they are going to pay for physical capital and other resources.

Physical capital can be further divided into fixed capital and working capital.

Fixed capital

Fixed capital refers to durable capital equipment that can be used repeatedly in the production process. For example, on a farm the fixed capital would include tractors, combine harvesters, storage sheds and any form of machinery that is used for production. In a retail outlet, the fixed capital would include the shop buildings, as well as fixtures and fittings.

Working capital

Working capital refers to the capital needed to pay for the day-to-day operation of a business. To calculate working capital, a business must calculate the difference between the **current assets** (what the business is owed, which can be converted into cash in under one year), and the **current liabilities** or debts (for example debts that need to be paid in under one year).

The formula for working capital is:

working capital = current assets *minus* current liabilities

Current assets consist of:

- **inventories** (the stock that a company holds in order to sell)
- **trade receivables** (many businesses supply goods on credit, and will expect to receive payment for those goods in the near future)
- cash.

Current liabilities consist of:

- **trade payables** (many businesses buy goods on credit, and will need to pay for these in the near future).

For example, Joanna owns a small ice-cream manufacturing company and sells her ice cream to small retail stores. Her current assets are the stock of ice cream that she holds in a freezer warehouse, which is waiting to be supplied to retailers; trade receivables in the form of money owed to her by retailers who have bought on credit; and the cash in her cash till and in her bank account. Joanna's current liabilities consist of invoices that she has not paid yet to a packaging manufacturer, from whom she has purchased packaging in which to wrap her ice cream.

If a business is going to continue to have enough working capital to trade, it is essential that the business has enough current assets to pay current liabilities. Companies need cash (working capital) in order to buy stocks and raw materials, as well as to pay wages and company bills (such as energy and transport bills).

In summary:

Fixed capital	• Machinery • Equipment • Machine tools • Fixtures • Fittings
Working capital	• Current assets *minus* current liabilities

Venture capital

A third type of capital is venture capital. Venture capital is money that is provided by investors to "start-up" businesses. These investors are often referred to as venture capitalists. Venture capital benefits a start-up by providing the funds – and sometimes the experience – of an investor. (Venture capital may also be given to a small business to help it to grow, not just because it is a new start-up.) The venture capitalists stand to gain because they will only invest if they think they can make a good return from the investment. The start-up entrepreneur is likely to work hard, and may have spotted a gap in the market that will yield a good return.

Key term

Fixed capital: durable capital equipment that can be used repeatedly in the production process.

Working capital: the capital of a business used to finance day-to-day transactions (often described as current assets *minus* current liabilities).

Current assets: liquid assets that can be turned into cash in under one year.

Current liabilities: debts that must be paid within a short period, for example under one year.

Inventories: goods and materials that a business holds for the purpose of reselling them.

Trade receivables: debts owed to a company by its customers for goods supplied or services rendered.

Trade payables: sums payable by a company to its suppliers for goods delivered or services consumed.

Now try these

1. Why does a business need to have both fixed capital and working capital?
2. Give three examples of items that would be fixed capital for a bottling company, and three that would be current assets.
3. Why might it be important for a business to have more current assets than current liabilities?
4. Why does a business need working capital?
5. **Business in action**: Calculate the working capital of Fry Fishery. Fry Fishery has bought in a catch of fish for $1 000, which it needs to pay for by the end of the week. Fry Fishery currently holds $500 in its tills and has $800 in a cash account at the bank. Fry Fishery holds a stock of $500 worth of fish in its freezers that is waiting to be cooked. It has also supplied $400 worth of cooked fish to the next-door restaurant, which will be paid for tomorrow.

Tip

A key feature of batch production is that every now and then, you have to stop the production process and change over to a new batch (such as white bread instead of brown bread), using similar equipment. Many manufacturing and service organisations operate in this way. For example, in an electronics factory, the production line may be set to produce one type of electronic circuit board for the first two hours of the day. Then the machine may be reprogrammed to produce another type of circuit board for the next two hours, and so on.

5.7

Classify the different types and levels of production

There are four main methods of production that can be applied to organising production processes, as outlined below.

Job production: Job production involves a one-off job. For example, the historic Chamberlain Bridge in Barbados was rebuilt between 2005 and 2006 using fibre reinforced plastic, which is lighter and longer-lasting than previously used materials. Building the bridge was a one-off project because the bridge had particular dimensions due to the size of the channel over which it crossed, and the rebuild had to maintain the heritage of the earlier bridge built in the 19th century. It was a unique job and was therefore not going to be reproduced anywhere else.

One-off jobs are more expensive to plan, prepare and implement than mass production methods. Typically, they will involve one or just a few customers, and one or just a few manufacturers. One-off jobs take longer than most other forms of production.

Batch production: Bakeries are a common sight in urban areas in the Caribbean. Bread, bagels, cakes, patties and other products will be produced either in a retail bakery, or in a large bakery and then transported to retailers for sale. In batch production, a number of identical (or similar) items will be produced in a set or batch. The items do not need to be for any specific customer, but are made at regular intervals in

specific quantities. Batch production involves work being passed from one stage to another, and each stage of production is highly planned. For example, in a bakery, the equipment might first be prepared to bake white bread, then brown bread, then rye bread. Alternatively, it might be prepared to produce different types of cookies in separate batches.

Bakeries use batch production to produce large quantities of one good in a single go

Flow production: Flow production involves products or services that are passed down a line of production. The production process is a repeating one, with identical products going through the same sequence of operations. Bottling operations and soap manufacture in the Caribbean fit into this type of production.

Airports also operate a form of flow production. Passengers arrive, check in, have their bags processed, go through immigration, wait in the departure lounge, and so on. The sequence is always the same. Air travel is therefore a form of mass production.

In continuous flow production, products are created 24 hours a day, using automatic equipment in a standardised way. An oil refinery, for example, works on a continuous flow basis, with petrol being refined around the clock. While this production method may be ideal for some types of product, a disadvantage is that there are many products that consumers prefer to be more individualised rather than mass produced.

Lean production: **Lean production** has also become popular in the Caribbean. The idea of "lean" stems from Japanese manufacturing, and is particularly associated with Toyota. At Toyota, the emphasis is on teams of employees working together in small groups to identify ways of improving production. These groups are called quality circles. Quality circles seek to determine ways of identifying waste in production, for example processes and activities that do not add value to a product. Lean production aims to cut out these wasteful activities. The emphasis in lean manufacturing is in getting workers to work "smarter".

Key term

Lean production: a systematic set of processes for eliminating waste from manufacturing and other forms of production. Waste is defined as any activity that does not add value in terms of what the customer wants from the product. The challenge is to identify any processes that currently take place in production that waste time and resources, and then to cut these processes out.

Types of production

Primary production consists of extracting natural resources. These natural resources can then be used in secondary production, which consists of manufacturing (making) goods, as well as construction (for example, building bridges, offices and other buildings). Primary-production resources can also be used in tertiary production, which consists of services in the form of direct services to people, and commercial services to businesses.

There are four main types of production activity, outlined below.

Extractive (agriculture, mining and quarrying, fishing): An extractive industry is any form of industry that removes (takes out) resources supplied naturally, for example extracting minerals or shale gas from a bed of rock, or catching fish from the sea.

Vegetables grown in the Caribbean include tomatoes, carrots, lettuce, beets, pumpkin, cucumber, cabbage, okras, peppers, yams, sweet potatoes, eddoes, cassava and beans. Caribbean countries also produce a variety of fruits including bananas, carambola, grapefruit, guava and mangoes. In addition, most Caribbean countries have a dairy industry, which includes the rearing of pigs (for pork), cows (for beef), chicken, turkey, lamb and goats.

There are many other resources found in the Caribbean such as sugar cane, bauxite, spices, oil, coffee, lumber, etc. All of these are extractive, and are grown or extracted in order to be used as a primary resource.

The term "mining" generally refers to sinking a shaft into the ground in order to extract coal, gypsum and other minerals, as well as to extract metals such as tin. A mine is thus usually referred to as a structure with a roof. However, the term "open-cast mining" refers to situations where there is no roof and minerals are extracted with mechanical digging equipment.

A quarry is a site for extracting minerals and rock that lie on the surface, and typically refers to the extraction of sand and gravel. These are known as aggregates and are used widely in the construction industry.

In Barbados, the focus is on quarrying rather than mining. A number of raw materials are quarried for the construction industry, including limestone, sand, clay, gravel and coral.

Off the coast of many Caribbean countries, fishermen catch barracuda, kingfish, snapper, bill fish, tuna and other varieties of fish. The fish are then cooked by people in their homes, or in restaurants and other kitchens. These fish are an important natural resource in Caribbean countries.

The Caribbean therefore has a strong extractive sector, consisting of agriculture (mainly fruits and vegetables, with some animal production), fishing, and mining and quarrying industries.

Construction (building): Construction refers to the erection of all types of building and other infrastructure, and usually relates to large structures such as houses, office blocks, factories, roads, railways, transport terminals, bridges and ports. Construction activity is usually an indicator of how well an economy is doing. When an economy is growing, the amount of people employed in the construction industry increases, to create the buildings and infrastructure needed for growth. When an economy runs into decline, the number of people employed in construction is cut back, and some construction companies run into financial difficulties.

In Trinidad and Tobago, the construction industry accounts for about 16 per cent of the entire labour force, and is responsible for about 7 per cent of all output (2015 figures).

Manufacturing (assembling, refining): Manufacturing is concerned with making finished products from raw materials and semi-manufactured goods. For example, the Agapey chocolate factory in Bridgetown, Barbados produces high-quality dark chocolate from cocoa beans grown in the Caribbean. Other examples include the following.

Natural resource	Manufactured/processed into
Crude oil in Trinidad	Petroleum
Sugar cane in Jamaica	Sugar
Nutmeg in Grenada	Spice

On an international level, we tend to associate large-scale assembly production lines with automobile manufacture in the United States, Europe and South East Asia, as well as countries like Brazil. Automated production lines can work for up to 24 hours a day, and levels of production are related to the demand for the product. When demand increases, the production line needs to run quicker and for longer.

Automatic manufacturing production lines use a lot of capital (huge automatic machines and factory robots), and relatively little labour. There is relatively little automated assembly in the Caribbean because, compared with countries where populations are far more concentrated:

- there is relatively little land for the huge sites required for such factories
- there is relatively little domestic demand compared with huge markets such as China and the United States
- there is relatively little skilled labour because urban populations are much smaller than those in large countries such as China, India and the United States.

However, where there is a Caribbean product with a mass market, there is scope for large-scale automated production. Perhaps the best example of this is the Red Stripe production plant in Jamaica, which is capable of producing 5 million cases of beer annually.

Another good example of Caribbean manufacturing is oil refining. Guyana has large reserves of oil and natural gas. As a result of the increased extraction of these resources, the country has been building large oil-refining plants. At the same time, Trinidad, which until recently was the Caribbean's major oil-refining nation, has started to close down refineries as they have not been making enough money.

The port at Port of Spain is vital in maintaining the smooth movement of goods from and to Trinidad

Service (transport, communication, tourism): A service (tertiary) industry provides a direct service to people (for example a taxi service, a hairdresser's, a healthcare facility, insurance and personal banking, etc.). A commercial service provides a service to a business organisation

Key term

Telecommunications: the sending of information (in the form of words, sounds and/or images), usually over long distances, in the form of electromagnetic signals by telephone (including cellphones and landlines), telegraph, radio or television. A key part of telecommunications is the transmission of messages from one computer terminal to another, which act as both transmitters and receivers.

Intergovernmental: between governments. Intergovernmental discussions and agreements help to forge cooperation between countries.

Broadband: a high-speed, high-capacity transmission medium that is able to carry signals from many independent network carriers. Broadband enables a very fast exchange of information, particularly by means of the Internet.

rather than an individual, such as business insurance, the commercial transport of goods (by sea, land and air), and banking (e.g. the handling of business accounts).

Transport links are fundamental to any economy. For example, the bus service in the Caribbean enables many employees to get to work, while commercial fleets of lorries move raw materials, semi-manufactured goods and finished goods to and from centres of manufacturing. Air transport enables rapid delivery, particularly of lighter and more valuable products. Bulkier and less-valuable products can be transported by sea, and there are a number of high-quality ports in the Caribbean that facilitate the smooth movement of such goods, for example the ports in Nassau (the Bahamas), Port of Spain (Trinidad), Suriname and St Lucia.

Communications refers to telephone, Internet, post, radio and television services. It is the process of connecting people (e.g. by telephone) and places (e.g. by air travel). Communication is a two-way process where the participants share information, news, ideas and thoughts. While telephone, post, radio and television are long-established industries, there have been rapid advances in **telecommunications** since the late 1990s.

Communication services are a key aspect of the Caribbean economy, and telecommunication links are particularly well developed. A communications service provider (CSP) is a service provider that transports communications electronically. The Caribbean Telecommunications Union (TCU) is an **intergovernmental** organisation driving cooperative improvements in the ICT (information and communications technology) sector.

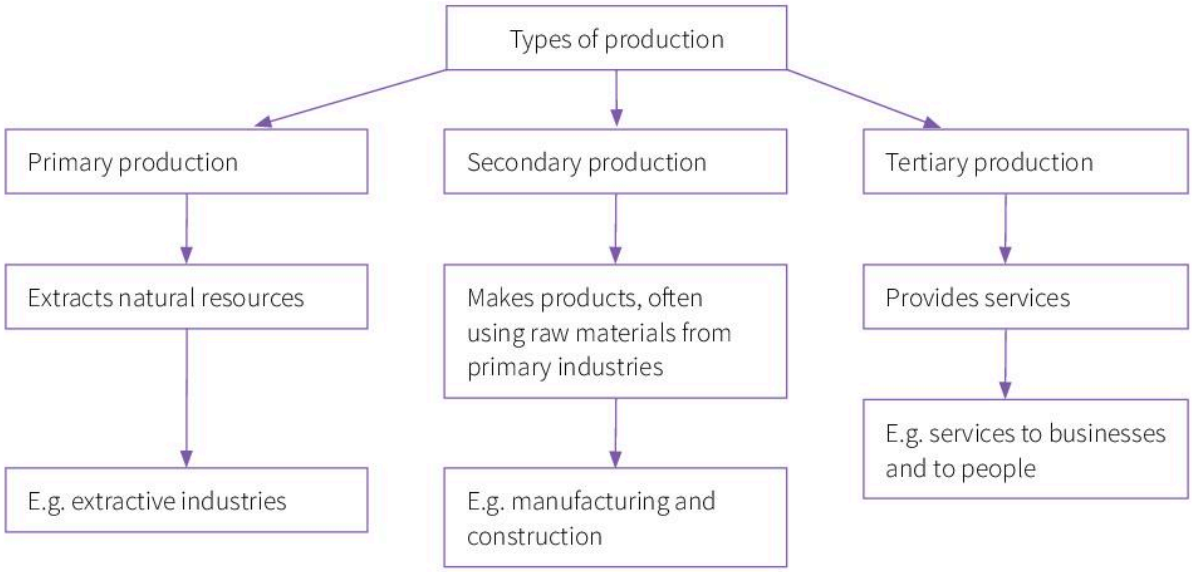
The development of cellphone communication has helped to open up the Caribbean economy to rapid contact systems, as has the development of **broadband**. The key providers in the mobile market include Flow and Digicel. Communication is both a business in itself – providing employment and incomes – as well as a key service for other businesses, enabling them to reduce costs and to reach wider markets.

Tourism is another important service industry in the Caribbean, providing employment for many people. Figures for 2017 show that this industry was responsible for 750 000 jobs in the Caribbean area and created $60 billion worth of revenues, and these figures continue to grow. The tourism industry involves four main areas:

- accommodation (e.g. hotels)
- transport (e.g. taxi and bus rides)
- entertainment (e.g. festivals, sporting events and dining)
- attractions (e.g. visits to sites of historic interest).

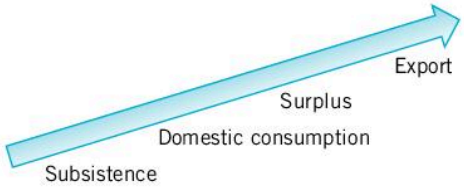
This then generates a range of additional service expenditure, such as on food and beverages (served in cafes and restaurants), and on products sold in shops.

Key to the development of the tourism industry is a sustainable approach, so that the number of visitors does not impact negatively on the Caribbean's natural resources, for example by contributing to the destruction of coral reefs and the pollution of the seas.



Levels of production

As societies develop, they go through four recognised levels of production, as outlined below.



Subsistence: In Unit 5.1, we saw how people living in simple societies are often self-sufficient and usually agrarian (they rely on agriculture). In subsistence production, the level of production is only just sufficient to meet the basic needs of the local population. The early Carib people in areas like Dominica would have lived in this way, gleaning enough resources from the natural environment to get by, as well as making tools for hunting and basic farming. There would have been some examples of bartering by neighbouring groups of people.

Domestic consumption: In the next stage of production, the emphasis is primarily focused on domestic consumption, i.e. providing sufficient goods to meet the needs of people within a given territory or country. A society focused on domestic consumption might rely on pottery, basket-weaving, food production and some mining of minerals. In this stage of production, a country would look to its own internal resources to provide the majority of the products used. Benefits of this stage of

Tip

Try to identify local examples (from your own country) of different types of production, for example in manufacturing, construction and service. These examples can be used in your exams.

production include self-sufficiency, the creation of employment and the saving of foreign exchange.

Surplus: As industry becomes more efficient, then surpluses of products start to develop, and some members of society are able to organise production into small factories and plantation agriculture. Entrepreneurs start to look for ways of benefitting from these surpluses, by extending the scope of the markets in which they operate. This inevitably leads to the next level: export production.

There are many benefits to a surplus industry, such as the earning of foreign exchange, the development of large-scale production, employment and trade relationships.

Export: With the better organisation of production and a more intensive use of capital, it becomes possible to export goods and services. In the Caribbean, this might have originally involved the export of goods between Caribbean countries, but this would have rapidly developed to cover a much wider area, for example the export of sugar, bananas and other cash crops to Europe, South America, North America and beyond.

Today, all Caribbean countries export some of their output. Tourism is a major export, as well as natural resources such as oil (from Guyana), bauxite (from Jamaica) and rice (from Guyana). Modern service industries also provide major exports, such as the export of information technology and telephony services (from Barbados), offshore banking (from the Bahamas and Cayman Islands etc.) and healthcare (from Cuba).

Economies of scale

As businesses get bigger, they are said to operate on a larger scale, and therefore benefit from economies of scale. Economies of scale are the advantages that a larger business has over a smaller one in terms of being able to produce a larger output at a lower **unit cost**. In other words, the big business produces more and the cost of producing each unit is lower. For example, the Red Stripe plant in Jamaica produces beer on a very large scale to reduce the cost of producing each unit (i.e. each bottle of beer).

The key aspect of economies of scale is that it enables a business to produce a larger output at a lower unit cost. The unit cost is the cost of producing each single unit of production (for example every single bottle of beer).

There are many advantages that a large firm has over a smaller one, as outlined below.

Technical economies of scale: This is where more effective techniques are used to produce goods, such as the use of automated machinery for mass-production purposes. In a Red Stripe plant, electronic eyes are used to scan bottles to check they have been filled to the correct level. Automated machinery then lifts, moves and packages bottles automatically. Technical economies come about because a firm is able

Key term

Unit cost: the cost of producing a single (one) unit of output. It can be calculated by dividing the total cost of producing a given level of output by the number of units produced. So for example if a business produces 1,000 units for a total cost of $110 000, the cost of producing each unit (unit cost) would be $10 each.

Tip

The key to understanding economies of scale is that although large firms have higher costs than smaller ones, these costs are spread over a much larger output. The result is that the large firm has lower unit costs, for example the cost of one unit of production, or the cost of marketing or selling one unit.

to afford to employ better and more effective machinery, equipment and buildings that are customised to the needs of production.

Commercial economies of scale: Commercial economies refer to advantages in the buying and selling of goods, raw materials, parts and other purchases. A large firm will often buy in bulk from suppliers, therefore it will be able to get a discount on its purchases. It can also transport goods in bulk, hence reducing unit transport costs. A large firm can reduce selling costs, as selling in large quantities requires fewer sales staff. Large businesses today can also use websites to sell their goods directly to customers, which reduces the need for sales staff even more.

Financial economies of scale: Large firms are able to raise finance more cheaply than smaller firms. For example, a large firm's reputation may enable that firm to get a bank loan for a lower rate of interest than a smaller firm, as it presents less of a risk to the lender.

Marketing economies of scale: Marketing costs are lower when you produce on a large scale. For example, the unit cost of a marketing campaign that reaches millions of customers is likely to be lower (per unit of sale made) than the unit cost of a much smaller marketing campaign run by a small firm.

Information technology economies of scale: Large firms are able to use information technology at a far lower unit cost of sale than a small firm. A large firm can create extensive websites and customer databases that cater for a large number of customers. Although these websites and applications are expensive to set up and buy, they can reach very large numbers of browsers and users, and thus potential customers.

Management economies of scale: A larger firm is able to employ a greater number of specialist managers. This enables greater efficiency as a result of the extra expertise that these additional managers bring to the firm.

Risk-spreading economies of scale: Whereas a small firm will produce or sell a narrow range of products, a large firm is likely to produce and sell a far wider range. Although some products will fail, others will succeed. Instead of putting all of its eggs in one basket (all of its risk on one product), the bigger firm places its eggs in lots of baskets (spreading the risk over multiple products). As a result, it is spreading its risk more widely.

Diseconomies of scale

If a firm becomes too large, it can suffer from diseconomies of scale. Diseconomies of scale results in increasing output or sales, but only at the expense of higher unit costs. Reasons for diseconomies of scale might be that a firm has become too large to manage effectively, or the scale of production is greater than the demand for goods. Problems that arise from diseconomies of scale include ineffective communication, staff inertia, losing touch with customers, etc.

Now try these

1. Classify the following according to whether they are extractive, construction, manufacturing or service industries and occupations: quarrying, food canning, insurance, railway building, dog walking, fishing, oil refining, house building and air transport.
2. Identify economies of scale that might be gained by a huge mass-production bottling plant compared with a much smaller bottling plant.
3. How might diseconomies of scale occur when a small family hotel expands by buying several larger tourist hotels?
4. **Business in action**: What is the largest company close to where you go to school or college, or where you live? Outline some of the economies of scale that this enterprise is likely to benefit from as a result of its size.

Levi Roots is an example of an entrepreneur who grew a cottage industry into one that is now much larger

5.8

Describe the characteristics of cottage industries

A cottage industry is one that takes place in people's homes. The key distinguishing features of this type of industry include the following:

- Home-based: people can work from home rather than in a factory.
- Mainly manual: typically people will work with their hands, for example by sewing, weaving, making carpets, etc.
- Small-scale: the scale of production will be small in contrast to factory production (where large-scale mass production machinery is likely to be employed). Therefore the machinery and equipment used will also be relatively small-scale, for example a sewing machine or a hand loom.
- Uses local raw materials: materials will often be sourced locally so that they can be transported easily to family homes.
- Uses family members as labour: the family will often work together to produce goods, and skills will be taught by older members of the family to younger ones.

Examples of products that are commonly produced by cottage industries in the Caribbean include the following.

Cottage industry product	Examples
Textiles	Tie-dye T-shirts and dresses
Wooden furniture products	Chairs, woven baskets and wooden toys
Processed foods	Bottled fruit, jam and sauces

There are many benefits of cottage industries to the economy. These include the use of local raw materials, the creation of local incomes, and the boosting of tourism (for example by providing souvenirs).

Some cottage industries go on to develop into much bigger enterprises, producing on a larger scale. A good example of this is the business set up by Levi Roots. Levi learned how to mix Caribbean flavours, herbs and spices from his grandmother in Clarendon, Jamaica. Later, the family moved to Brixton in London, and Levi and his children would mix spices in their kitchen to sell at carnivals and fairs. Levi Roots went on to secure finance for his business, which is now a household name in the United Kingdom and beyond, selling his well-known Reggae Reggae Sauce alongside other varieties of food and spice.

Now try these

1. Identify five features that are typical of a cottage industry.
2. Where would you typically find a cottage industry located, and what types of people are most likely to be employed in cottage industries?
3. **Business in action**: Identify a cottage industry that operates in your neighbourhood. Who set up the cottage industry? What does it produce/sell? How is it organised?

Tip

Make sure you can give an example of a cottage industry, such as weaving baskets or pickling vegetables in a home setting. Be able to identify the characteristics of these cottage industries.

5.9

Outline the functions of small businesses

Small businesses play an important part in nation building and serving the needs of people in Caribbean countries, as well as the needs of people across the globe.

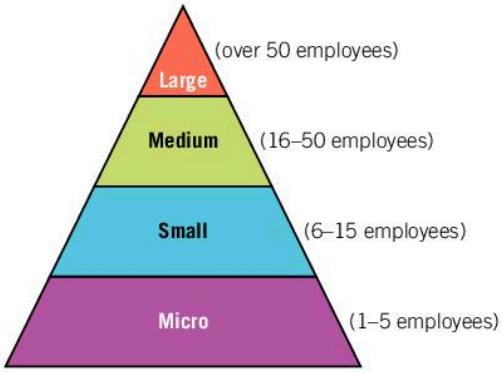
The problem with analysing the role of small businesses in the Caribbean is that there is a lack of research into small business, and no clear example of a typical small enterprise. A report produced by the Caribbean Development Bank into micro/small/medium-sized business in the Caribbean, called *Towards a New Frontier* (2016), noted that across the Caribbean there are at least 35 definitions of what constitutes such enterprises in 23 different Caribbean territories. These definitions focus on the assets to which these enterprises have access, the employment they create, or their turnover (sales). The report noted that the most common feature used to define **MSMEs** (micro/small/medium-sized enterprises) is size. The report recommended the creation of a Caribbean-wide definition, based on the following:

- a micro enterprise has between 1 and 5 employees
- a small enterprise has between 6 and 15 employees
- a medium enterprise has between 16 and 50 employees.

The report identified some of the problems facing such enterprises, including:

- a lack of clear government plans for the development of small businesses (with some exceptions, for example Trinidad and Barbados)
- a difficulty in accessing finance, because banks see small enterprises as constituting high-risk loans.

There is typically a pyramid of enterprise sizes in most countries, with micro enterprises being the most numerous, and large enterprises being the least numerous.



Key term

MSMEs: micro/small/medium-sized enterprises.

The following terms relate to the different ways that an MSME can be defined.

The assets method: a calculation totalling up the value of the things that a business owns or is owed at a given moment in time.

The employment method: a calculation using the number of employees of a company. This is a simple method and the most widely used.

The turnover method: a calculation of the sales value of a business in a given period of time, for example one year.

A number of agencies have been developed to foster the growth of small businesses in the Caribbean. These include the Jamaica Business Development Corporation (JBDC), the Small Business Association of Jamaica (SBAJ), the National Entrepreneurship Development Company (NEDCO) in Trinidad, and the Institute of Private Enterprise Development (IPED) in Guyana.

Small businesses perform many functions, as outlined below.

Creating employment

MSMEs provide employment for a large number of people in urban and rural areas. International comparisons show that the Caribbean region has a relatively low level of MSME density compared with other areas, but the numbers are rising with increased prosperity and development. Small firms provide work in many industries, for example:

- the hotel and catering industry
- small-scale food and drinks manufacture
- farming and fishing
- retailing (small shops and street vending)
- printing and graphic design
- education
- textiles
- building and construction
- electrical work and plumbing
- IT and website design.

Small enterprise provides an environment for entrepreneurs to learn new skills, and some eventually go on to set up or run much larger businesses.

Providing services

MSMEs provide services for larger firms as well as providing services that large firms do not want to provide themselves. For example, cleaning service companies will provide cleaning for factories and offices. Catering companies will provide onsite catering facilities for large companies, taking orders in the morning and then delivering the food at midday or whenever required. A large company might contract out many non-core functions to smaller companies, for example taking corporate photographs, repairing company machinery and equipment, or providing medical services for workers employed by a large company.

Catering for niche markets: A niche market is a small segment (component) of a larger market. Demand may be relatively small and specialised in a niche market, therefore a large firm may find that demand and potential sales are too low for it to target the market.

Now try these

1. What is a small business? Why do you think there are different ways of defining what a small business is?
2. Why are there so many opportunities to set up a small business? Why might there be more opportunities to set up a small business than a large business?
3. Why might a business want to stay small rather than expand?
4. **Business in action**: Identify a business in your area that has found a niche market to exploit. What is that niche market? What benefits are there to the firm of operating in a niche market rather than a larger market?

A good example of an entrepreneur who spotted a niche market is the Jamaican entrepreneur Cheryl Holdsworth. Cheryl was seeking natural products for her own diet. She developed the idea of nut and seed butters that could be sold in health-food stores. She set up her company CherButters in 2013. This is the only Jamaican company that manufactures seed butters such as almond butter, cashew butter and sunflower seed butter, without the use of hydrogenated oil or palm oil.

These products are cheaper than imported products, and are more natural as well. Cheryl is now looking to export her product range so that she serves not only the domestic market. She has effectively secured a niche outside of those areas covered by large companies.

5.10

Discuss the advantages and disadvantages of small business

Examples of the advantages of small business

Small businesses benefit an economy and help nation building in a number of ways, as outlined below.

Small businesses generate employment and incomes: The majority of people in the Caribbean (around 70 per cent) live in urban areas, i.e. areas with a higher population density. However, the percentage of those living in rural areas varies from country to country. For example, most people in Montserrat and St Lucia live in rural areas. In contrast, 61.7 per cent of the population of Guyana lives in Georgetown, and there are similar figures for Kingston (Jamaica) and Port of Spain (Trinidad).

In rural areas, most people are employed in jobs in agriculture or tourism. There are more men than women living in rural areas (many of whom are working in agricultural occupations), and there are high levels of youth unemployment. Small businesses provide an opportunity for people to earn incomes to support themselves and their families. Setting up an enterprise can be a way of escaping poverty. In the Caribbean, average incomes are lower in rural areas than in urban areas, therefore setting up an enterprise in a rural area can be a way of earning extra income.

In the Caribbean there are high numbers of female entrepreneurs in rural areas, although some of these are described as **necessity entrepreneurs**, for example they set up an enterprise in order to earn sufficient money to feed the family. Typical lines of business for female entrepreneurs are food processing, selling fruit and vegetables, selling haberdashery, garment construction, hairdressing and catering.

Key term

Necessity entrepreneurs: people who become entrepreneurs because they need additional income to get by. Often, they will run a small business enterprise from home as well as having other jobs working for someone else.

Cottage industries are particularly important because they require little capital and can rely on manual labour working from home, typically making up personal orders for other people.

Small businesses increase competition for larger firms: Small enterprises compete with larger firms, and a number of small firms eventually grow to become large enterprises. Small firms are particularly competitive in areas like website design, IT products and services, electrical and plumbing work, and also in retailing. The existence of the MSME sector means that customers have alternatives to large enterprises where prices may be higher.

In the early days, it pays to be small. This is because small-business owners learn how to run and manage a business, make decisions, access capital, and work out what products to supply. They therefore build up a lot of general experience, which someone inside a bigger business may lack because they specialise too much in one area.

Small businesses can supply a local market, for example a local corner shop, restaurant or hairdresser. A small business finds out what local customers want and the level of service they require. This may give small businesses an advantage over bigger businesses that are supplying the same area.

Small business provides essential components and supplies for larger businesses. This enables the larger businesses to focus on what they do best. For example, small businesses might provide advertising, marketing and packaging support for larger businesses, or make sub-assemblies for larger companies.

Small businesses introduce new products and ideas: Being entrepreneurial often involves coming up with new ideas. For example, in Unit 5.9 above, we saw how Cheryl Holdsworth developed new butters. Her story has been repeated throughout the Caribbean where entrepreneurs have created products and ideas such as new Caribbean food and drink flavours, green technologies, IT applications, engineering products, recording studios, surfboards suitable for Caribbean waters, and many other products.

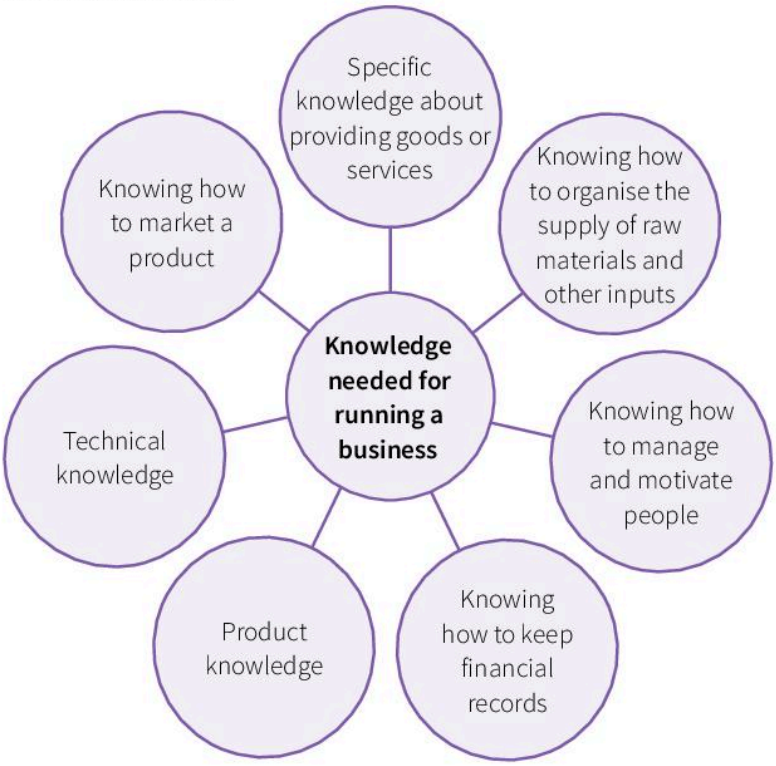
Event planning and management is a good example of Caribbean innovation. A large number of small enterprises in countries like Barbados, Trinidad and Jamaica have been established to organise events, or handle aspects of event management such as transport to locations, management of lighting effects, provision of music and photography, etc. These entrepreneurs are particularly creative in providing new ideas and solutions to the many demands for event management, including weddings, parties, conferences, exhibitions and sporting tours.

Event planning, such as wedding planning, is one business area in the Caribbean where small enterprises introduce new and creative ideas

There may only be limited demand for a small firm's product. An example might be a supplier of specialist medicines for patients with rare diseases. As there is only limited demand, a large business would have to diversify and offer different products in order to be viable. Small firms are also particularly good when personal service and attention to detail are required, for example in hairdressing or wedding planning.

Examples of the disadvantages of small business

The business lacks expertise in certain areas: Running a business requires expertise in a wide range of areas, some of which are shown in the diagram below.



Of course, the business owner may be able to hire a limited number of employees who have some of this knowledge, or access advice and help from outside consultants, but very often this will need to be paid for.

Owners find it difficult to source finance: Financial institutions such as commercial banks are very cautious about how much they lend, and to whom they lend. Because small firms only have limited assets to put forwards as collateral against a loan, it is more difficult for them to raise finance. Small businesses may also have to pay higher interest rates in order to secure finance (compared to a large organisation with an established financial reputation).

Limited ability to service customers: You can only service the needs of multiple customers if you have the resources to do so, such as the necessary machinery, vehicles, labour, management, etc. For example,

Tip

If your were in charge of the loans department of a bank, would *you* want to lend to a small business, knowing that it could fail at any moment?

a small legal firm will only be able to take on a relatively small number of clients. A dentist with only two dentist's chairs can only service two customers at a time. A taxi firm with only three cars can only take on three jobs at a time, etc. A small firm has a limited production capacity, and will be unlikely to compete with larger firms around the world.

No benefit from cost advantages: Small enterprises are not able to benefit from the cost advantages (known as economies of scale, as described on page 166) from which large-scale producers benefit. While a small, local company might be able to supply local customers with lemonade, it would not be able to compete nationally or internationally with a huge manufacturer.

No access to research and development facilities: Research and development is crucial to modern industries such as pharmaceuticals and IT applications. This research and development enables breakthroughs in technology and product innovation. Very few small firms have access to the research and development facilities that large firms have, which impacts on the development of new products and ideas.

Less well known: Small firms are less well known than larger firms because they have smaller advertising and marketing budgets. This means they have a smaller potential customer base.

Tip

Make sure you can explain how small firms help a country/nation, for example by providing work for others (particularly in rural areas), and how small firms are also beneficial to their owners, for example by providing a source of income to the entrepreneur and the opportunity to work for themselves.

Now try these

1. Identify some small businesses in your area. If possible, interview the owner of at least one of these enterprises to find out the following.
   (a) When the business was set up.
   (b) What the motivation was for setting up the business.
   (c) How many people it employs.
   (d) What the aspirations of the entrepreneur are. For example, does he or she want to increase the scale of the business?
2. Give examples of situations where small businesses supply local needs in ways that a large business might not.
3. Give examples of how small businesses might be able to develop, and have developed, new ideas.
4. Who or what is a "necessity entrepreneur", and what contribution do they make in supplying goods that people need?
5. **Business in action**: What contribution do small businesses make to the economy of your country? Give some examples of specific businesses and how they contribute.

5.11

Explain how a business grows internally and externally

Businesses may be able to gain advantages over competitors by growing, as they may be able to cut costs and win a greater share of the market. By growing they may also be able to develop new products or sell to new markets. Growth may be internal (inside the business) or external (joining together with other businesses).

Examples of internal growth

"Organic growth" takes place within a business. Money to finance the expansion comes from either reinvesting the company's profits back into the business, or asking the business owners to put in more capital (i.e. the money comes from within the business).

Many small businesses grow organically in their early years. This is because the owners do not want to risk borrowing money from outside the business. However, growing organically can be a slow process. Once organic growth has reached a certain point (for example the owners have put in as much capital as they are willing to, or the maximum amount of profits have been reinvested), then internal growth often takes place by investing in new products or selling more of the company's existing products. The following are some examples of internal growth.

Opening other outlets: Most well-known restaurant and hotel chains, as well as retail outlets, start out from a single premises. The idea is then "rolled out" (introduced) to multiple outlets under a single ownership.

For example, Sandals Resorts, which are spread across the Caribbean today, were created by entrepreneur Gordon "Butch" Stewart. He originally set up a single hotel in Montego Bay, Jamaica, before going on to spread the beach-resort concept across the Caribbean. This started up as a small business (one hotel) and now consists of many leisure and hotel complexes in prime locations across the Caribbean.

Employing more workers: If a company wants to grow, it will often take on more staff to deal with the increased level of business. A retail store may take on more shop staff to serve customers, and a restaurant chain may employ more kitchen or service staff. As companies grow, they will also be able to take on more specialist managers who can perform specialist functions such as managing sales and finances, and organising different areas of production.

Increasing capital: A key aspect of growth will be the acquisition of more financial capital in order to invest in better resources and equipment. Money for expansion can come from ploughing back (reinvesting) profits, or from borrowing from financial markets such as banks and investors, often using some of the business's assets as collateral.

Establishing e-commerce: Creating an online trading platform such as a website enables small businesses to expand organically to a potential worldwide market, without having to open up outlets around the globe.

Franchising and outsourcing: Franchising is when a well-established business allows others to use its business idea, format, logo and products (for a share of the profits). For example, KFC is a fast-food franchise that offers a number of franchise opportunities in countries like Barbados and Trinidad and Tobago.

Outsourcing is when a business contracts out some of its work to an outside supplier, who will then make goods or provide a service on behalf of the business. Outsourcing makes it possible for a business to grow quickly at low cost, partly because managing tasks is done by people external to the business.

Examples of external growth

External growth involves the takeover of another business, a merger with another business, or the creation of a joint venture.

Businesses are able to take over other companies by purchasing the majority of shares in them. They can merge with another company by joining together the two concerns as a single entity, usually with new shares being issued for the new company. Businesses can also grow by creating a joint venture – a new enterprise set up by the two companies concerned.

Joint ventures: A good way to enter an overseas market is to form a joint venture with a local partner. A joint business is set up between the two companies. Many American and European companies have formed joint ventures with a Caribbean partner. The local partner will have a lot of contacts with government officials and business people in the home market. The local partner will also have a good knowledge of local tastes and preferences.

The table below outlines some joint ventures in the Caribbean.

Barbados Port Inc. and Royal Caribbean Cruises	A joint venture between one of the world's largest cruise-liner companies and the Barbados port authority to improve the port in Georgetown
Cuba's Center for Molecular Immunology and US-based Roswell Park Comprehensive Cancer Center	A joint venture to build on Cuba's world-leading medicinal research, to trial four Cuban-developed cancer treatments in the United States
GraceKennedy Group and Inter-Secondary Schools Sports Association (ISSA)	A joint venture setting up a new company called Greenfield Media Productions, to manage the media rights for all of ISSA's sporting events. The new joint venture has acquired the long-term rights to sell the broadcasting of these events. The joint venture helps GraceKennedy to support education and nation building in Jamaica, and will include the broadcast of athletics, football, netball, tennis and other sports.

Mergers: A merger occurs when two businesses combine to form a single company. The existing shareholders of both businesses retain a shared interest in the new business.

For example, in 1998, Exxon and Mobil signed a merger agreement to form a new company called ExxonMobil, creating one of the largest oil companies in the world. The benefits of this merger stemmed from the ability to cut out the wasteful duplication of activities, for example in oil exploration and the laying of undersea pipelines. Through the merger the new company was able to lay off some workers who were doing similar jobs, leading to cost savings.

Takeovers/acquisitions: An acquisition occurs when one business gains control of part of another business. A business may be prepared to sell off one of its divisions that it no longer wishes to keep.

To take over another company, one business will buy up a majority or all the shares in the business it wants to take over. It may offer the shareholders in the company being acquired shares in the new business.

A good example of the acquisition of other companies through a takeover process involves the Republic Bank of Trinidad and Tobago. Until 1981 this was part of Barclays Bank (a UK-based bank), but in 1981 it became independent and started to expand in the Caribbean. As well as having branches in Trinidad and Tobago, Republic Bank has branches in Grenada, Guyana and Barbados. More recently, Republic Bank has grown by taking over Barbados National Bank (through the acquisition of the shares of this bank), as well as the Bank of Commerce Trinidad and Tobago.

Advantages of acquisition include the following:

- A reduction in competition. In Republic Bank's case, this means less competition in the provision of financial services.
- Being able to operate on a larger scale, benefitting from economies of scale such as being able to mass advertise to a broader market, and being able to afford better technology for online banking.
- Being able to reduce the duplication of services and hence cut costs, such as through a reduction in the labour force.

Businesses carry out external growth in order to:

- buy new and exciting brands where sales are likely to be high
- acquire new inventions and technologies
- break into new markets, perhaps in other countries.

The key benefit of internal growth is that it enables owners to keep control of their own business. However, internal growth can be slow and can put a lot of pressure on the existing owners.

In contrast, the key benefit of external growth is that it enables more rapid expansion, and allows a business to gain skills and knowledge

Now try these

1. Describe three differences between internal growth and external growth in relation to business.
2. How might external growth help a business to grow quicker than internal growth?
3. What are the dangers of external growth when compared with internal growth?
4. **Business in action**: In a national newspaper, identify discussions revolving around a merger, takeover, or the creation of a joint venture. Who are the two parties involved? How does the newspaper portray the benefits of the method of external growth that has been used?

Key term

Linkage industry: one that is connected to another industry because it provides supplies for it, or is a market for its finished product.

Backward linkage: when an industry depends on the output from an industry which is at an earlier stage of production.

Forward linkage: when one industry or firm supplies another industry or firm further up the supply chain.

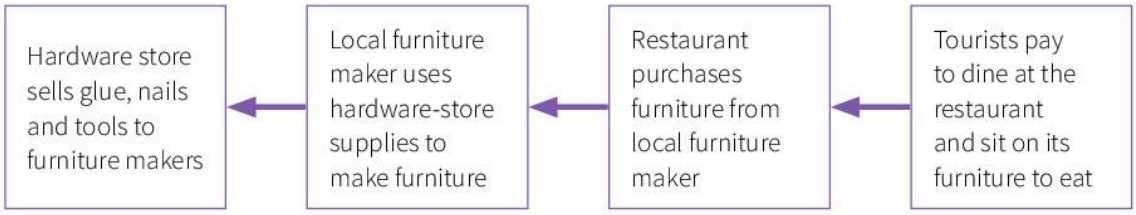
that it may not possess internally. However, it is risky in that the existing business may be joining with others about which it has little knowledge.

5.12

Outline the opportunities for and benefits of developing linkage industries

Linkages between industries in an economy are very important in determining how effective that economy is. Some sectors of the economy provide more opportunities to create linkage industry than others. A **linkage industry** is one that is connected to another industry because it provides supplies for it, or is a market for its finished product. An industry will have backward links to other industries, as well as forward links.

This is best illustrated by means of an example. The tourism industry is a key part of most Caribbean economies, and expenditure by tourists benefits many industries in the economy. For example, when tourists spend money in a restaurant, this creates income for the restaurant. However, the restaurant will also need to buy supplies to cater for the tourists, such as tables, chairs and tablecloths from local retailers. The local retailer will purchase tables and chairs from local furniture makers. The furniture makers will buy glue, nails and tools from hardware stores. And so on. The flowchart below shows the backward links in this supply chain.



Another example is that tourists will stay in hotels which have been built by local construction companies. The construction companies will buy their materials from local suppliers to the construction industry. These suppliers will buy sand, gravel, etc. from quarries.

Backward links are when an industry or firm is supplied by an industry or firm further back down the supply chain. The demand of one industry leads to the development of another industry. For example, a firm that extracts oil (primary sector) has a backward linkage with the producer of oil rigs (secondary sector). Another example would be a bakery that depends on the services of an accountant.

In contrast, **forward links** are when one industry or firm supplies another industry or firm further up the supply chain, i.e. when the products of an industry become the raw materials of another industry. The flowchart below gives an example of forward links in a supply chain.

The term "**key sectors of the economy**" refers to industries that have both strong forward and backward linkages. It is important to understand how industries link together, and to appreciate how many other industries are dependent on one particular industry. For example, tourism creates lots of business for other industries and businesses, including hotels, automobile rental, golf courses, supermarkets and restaurants, museums and historical sites, and so on.

Studying linkages helps to understand how important industries are to a national economy. For example, if an industry buys most of its supplies from local producers, then it creates significant demand in the domestic economy and creates further local employment and incomes. Take the example of the building industry. If the building industry in Jamaica gets most of its materials from Jamaica, then these backward links create incomes within the country. However, if instead it imported most of its materials, then this would not create these effective links. Fortunately, Jamaica is able to supply much of its own building materials.

Similarly, it is helpful to a national economy if an industry has forward links within its own country. For example, if food grown in Jamaica is processed in Jamaica, then this creates incomes and jobs in Jamaica.

5.13

Explain the effects of growth on a business

When a business grows, this will inevitably impact on many different parts of the business. The main effects are outlined below.

Organisational structure

The way that a business is structured may have to change if it expands. For example, two companies that merge together will often have the same set of functions, such as marketing, finance and IT. It may therefore be necessary to bring together these two sets of functions to avoid duplication. Rather than having two marketing directors, it may be necessary to have one marketing director with overall responsibility for marketing in the new company. Or the span of control may become wider, while the structure will become taller since more levels will be added.

Key term

Key sectors of the economy: industries that have both strong forward and backward linkages.

Now try these

1. What is the difference between a backward linkage and a forward linkage? Illustrate your answer by using an example (one that is different to those given in the text above).
2. Why are "key sectors of the economy" so important to an economy? Give an example of a key sector in your country and show why it is so important.
3. **Business in action**: Which industries are the most important in your country in terms of the sales revenue and employment created by these industries? Create a poster that illustrates the forward and backward links between these industries and other industries in your country.

Capital

As a business grows, it will build up more capital. Finance can be acquired from a number of sources, including from investors such as venture capitalists, from selling more shares (if the company is a registered company), and by ploughing back profits into the business. The business can then use this capital to acquire more fixed capital in the form of better premises, more effective machinery and equipment (for manufacturing businesses and businesses that extract raw materials), more fixtures and fittings, more advanced IT and data processing, and telecommunications systems in a variety of service industries. Businesses are also better placed to lease equipment and vehicles.

Labour

A growing business is able to take on more labour. For micro and small businesses, including those in cottage industries, it will be possible to switch from the employment of part-time or **casual labour** to employing people full time. There will be issues here associated with creating a more formal employment structure, such as paying income taxes and other contributions to the government for each worker employed. Increasingly, skilled labour rather than unskilled labour can be employed, and this will lead to rising wages.

Use of technology

As firms grow, they will be able to employ more advanced **technologies**. For example, in garment manufacture this could involve the purchase or **leasing** of better sewing and weaving machines. Growing businesses will also want to use advanced information

Key term

Casual labour: people who are employed on a temporary basis rather than a regular or full-time basis.

Technologies: technology is the use of science for practical purposes. When small businesses use technology, this means they are using more advanced techniques of production, usually as a result of using more advanced equipment such as computer systems and computer-aided machines.

Leasing: a lease is a contractual arrangement whereby the lessor (user) agrees to pay the lessee (provider of equipment) sums of money for the use of leased items. Typical items that are leased by businesses include photocopiers and cars.

technology, for example **computer-aided design** equipment, database systems, websites and a range of relevant IT applications. The term "computer-aided design" (CAD) refers to producing designs on computers. These designs can then be fed into a computer-aided manufacturing machine (CAM), which will automatically carry out operations that have been programmed into it.

Potential for export

In Unit 5.9 above (page 169), we saw that Cheryl Holdsworth was contemplating **exporting** her CherButter. Once a small business has started to build up customers, there is no reason why these customers should not be overseas. Exporting will involve extra cost in terms of promoting the product in foreign markets, transporting the goods (or services) abroad, paying import taxes in some foreign countries, and other complications. However, many of these obstacles can easily be overcome, for example by marketing through an easily accessible website, exporting alongside other exporters in a shared container, and of course by charging higher prices in overseas markets. Small firms will contemplate exporting if the product is not too heavy or bulky, meaning it is less expensive to transport, and where it particularly appeals to overseas customers. Also, small businesses tend to meet local demand. As businesses expand, they will adopt new standards in an effort to enter global markets. This will increase profits and provide an impetus for firms to become more competitive.

Key term

Computer-aided design: computer-aided design systems involve using a computer for design purposes, for example to aid textile design. A designer might create a design using a computer programme, which can then be used by a special computer-aided manufacturing machine to cut out the parts that have been designed.

Exporting: selling goods into a foreign/overseas market.

Now try these

1. The tourism industry has become increasingly important in the Caribbean. Using the example of the hotel industry, explain how a hotel chain will have to alter the following as it grows:
   - **(a)** its organisational structures
   - **(b)** the types and quantities of capital employed
   - **(c)** the types of labour employed
   - **(d)** the types of technology used.
2. Identify a growing business in the Caribbean that has been able to benefit from increasing opportunities to export. What have become the key export markets that it is targeting?
3. **Business in action**: Interview the owner of a local small business that is experiencing growth. Identify the issues the business has faced in terms of changing the organisational structure, employing more and different people, accessing more capital, employing new technologies, and any export considerations.

Develop your exam skills

PAPER 1

1. The machinery used in rice growing would be defined as which of the following factors of production?
   - A Enterprise
   - B Land
   - C Labour
   - D Capital

2. Which of the following provides the best explanation for the rising productivity of labour in an enterprise?
   - A More labour is being employed
   - B More output is being produced in total
   - C Labour is working more efficiently with existing capital
   - D The business is employing less capital than before

3. Which of the following provides the best explanation for the high level of productivity in Barbados?
   - A A positive work ethic in Barbados
   - B Effective combinations of capital and labour in Barbados
   - C A good healthcare and education system in Barbados
   - D All of the above

4. Which of the following is an example of fixed capital in a supermarket?
   - A The display cabinets
   - B The cash in the tills
   - C Money owed by people who have bought on credit
   - D Stock waiting to be sold

5. Which of the following is a definition of working capital?
   - A Fixed capital *minus* stocks
   - B Current assets *minus* current liabilities
   - C Fixed capital *plus* current assets
   - D Current liabilities *plus* stock

6. An advantage of small businesses to a country is that they:
   - A Do not employ economies of scale
   - B Create employment, particularly in rural areas
   - C Have a relatively short life-span
   - D Provide a drain on the financial resources of that country

7. An example of a "technical economy of scale" is:
   - A The employment of mass-production machinery
   - B Spreading risks by producing more products
   - C Being able to raise more finance at a lower interest rate
   - D Taking on more specialist managers

8. An example of organic growth in a business would be:
   - A Merging with another company
   - B Forming a joint venture
   - C Taking over a rival business
   - D Ploughing back profit into the business

9. Which of the following best illustrates forward linking of industry?
   - A An oil refining company invests in oil exploration
   - B A steel producer merges with a company that extracts iron ore
   - C An insurance company merges with another insurance company
   - D A large farm purchases a food processing company

10. Computer-aided manufacturing involves:
    - **A** Drawing designs on a computer
    - **B** Making goods with a machine that takes instructions from a computer
    - **C** Using information technology to generate a commercial website
    - **D** Using a computer to manage the accounts of a company

PAPER 2

1. **(a)** List two (2) types of production. **(2 marks)**
   (b) Explain the importance of productivity. **(4 marks)**
   (c) Discuss how a business can benefit from developing linkages. **(4 marks)**

2. **(a)** List four (4) natural resources found in the Caribbean. **(4 marks)**
   (b) Describe the factors of production. **(8 marks)**

3. **(a)** List two (2) levels of production. **(2 marks)**
   (b) Explain any two (2) levels of production. **(4 marks)**
   (c) What are the indicators that a business is experiencing internal growth? **(4 marks)**

4. **(a)** Define a small business. **(2 marks)**
   (b) List two (2) advantages and two (2) disadvantages of a small business. **(4 marks)**
   (c) Explain two (2) functions of a small business. **(4 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

6 Marketing

Setting the scene

A marketing agency called Caribbean Focus

Caribbean Focus is a small market-research agency providing a service for small firms in the Caribbean. It was set up by partners Keith and Pearline Samuels, who met each other while working for a large market-research company in the United States. Caribbean Focus creates independent research reports on particular product markets that are of interest to Caribbean businesses, such as software and website design, fashion, Sea Island cotton products, recording studios and online educational courses. The reports contain detailed, up-to-date statistics relating to current and likely future trends, competition, prices, what customers are looking for, and many other aspects of marketing. These reports can be purchased by small businesses. They are not cheap, but they mean that business owners do not have to carry out independent research of their own.

Caribbean Focus also carries out independent research for a fee that depends on the time and cost required to carry out the research. For example, a small business owner might want to identify data such as the most suitable ways to advertise his or her new business/product, product features that customers desire, the likely number of purchasers at different prices, the age profile of typical consumers, etc.

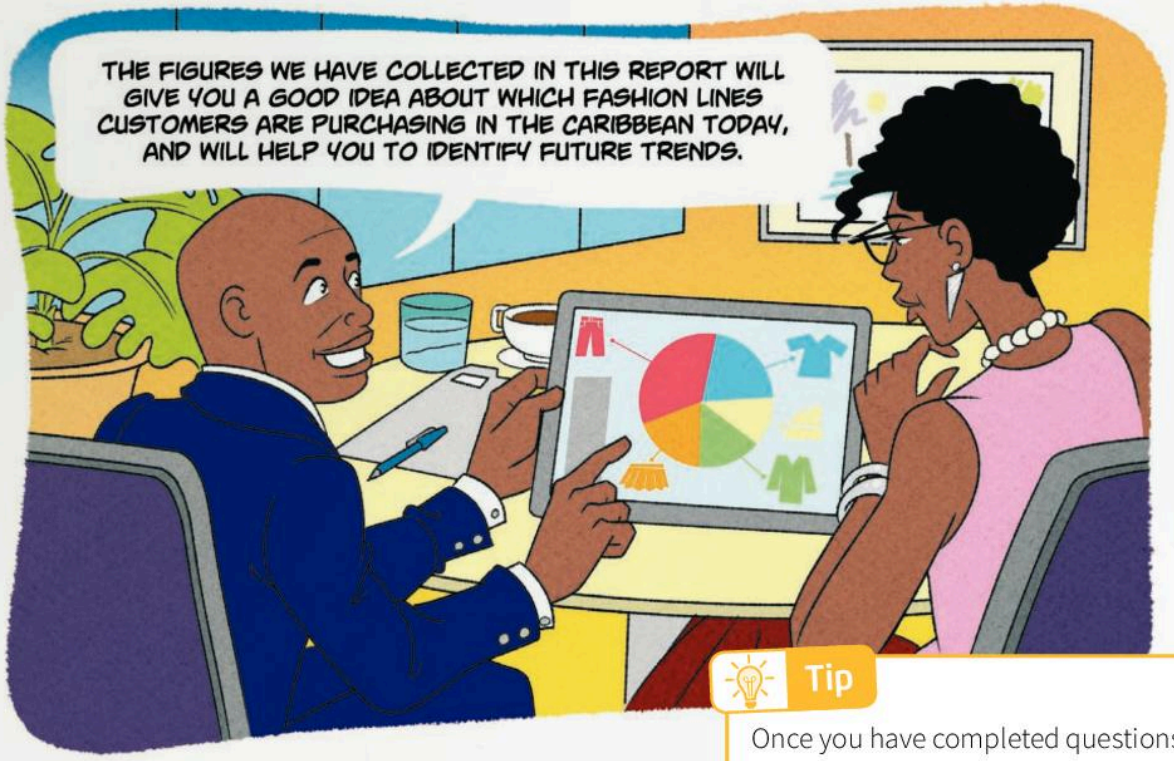
As the name suggests, Caribbean Focus concentrates primarily on the Caribbean market. It can provide market research about a whole country, such as Jamaica, or break this down further into demographic categories, such as women in Jamaica, Kingston's metropolitan population, school-age children in Jamaica, and so on. A demographic category is a subset of the population, such as people in the same age bracket or people of the same gender. Demographic grouping is of interest to marketers because different groups typically exhibit different desires for products or services.

1. How might the reports provided by Caribbean Focus help a new fashion retailer in the Caribbean?
2. What questions might a small fashion retailer ask about its potential market, and how might market research help to provide answers?

Objectives

After reading this chapter, you should be able to:

1. Explain the concepts of markets and marketing 186
2. Explain marketing activities 188
3. Describe the "marketing mix" 191
4. Describe the factors that influence consumer behaviour 198
5. Identify factors affecting packaging and presentation of goods 201
6. Describe methods of promoting sales 202
7. Identify the techniques of selling 208
8. Explain the various terms of sales 212
9. List the functions of consumer organisations 215
10. Outline the role of customer service 217
11. Describe forms of customer service 218
12. Explain the concept of intellectual property rights 220



Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

Key term

Market: any situation where buyers and sellers come into contact.

E-tailer: a business organisation that uses the Internet to communicate and sell goods to shoppers. E-tailing enables a business to communicate with a much larger audience.

Marketing: identifying and anticipating customer requirements in order to meet these requirements and make a profit.

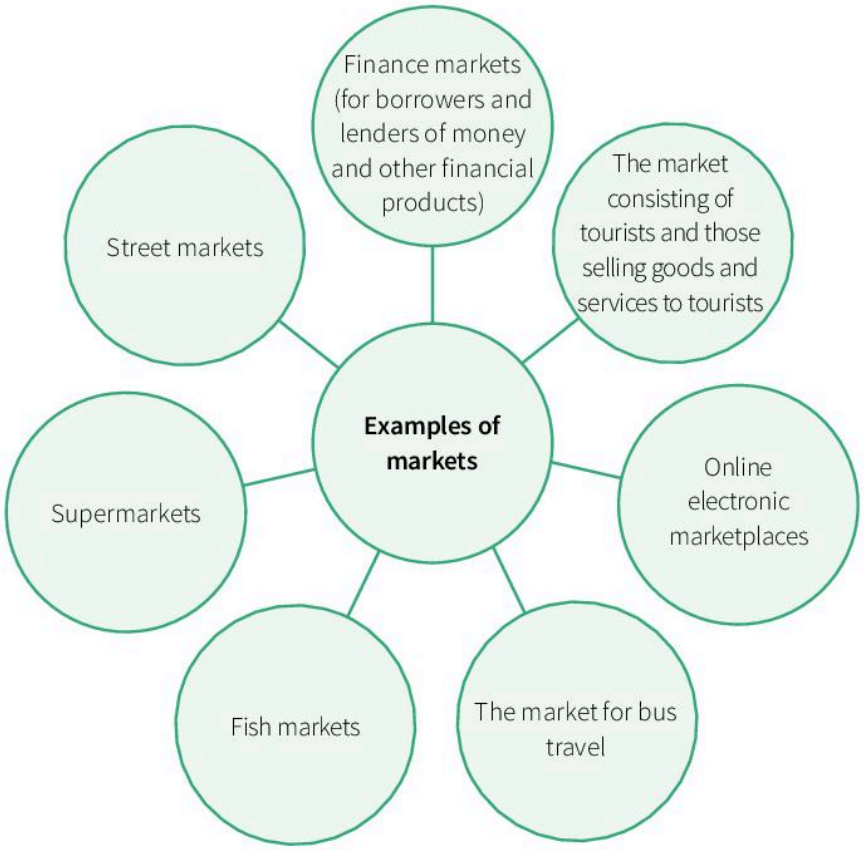
6.1

Explain the concepts of markets and marketing

What is a market?

A **market** is any situation where buyers and sellers come into contact. For example, street markets, supermarkets, newspaper sellers and taxi firms are face-to-face markets. A key feature of most markets is that there is some element of competition, for example rival bus companies seeking to win the biggest share of the market for bus transport.

However, a market does not necessarily involve face-to-face interaction. Increasingly, purchases and sales are being made online as a result of e-commerce (trading on the Internet). The term **e-tailer** refers to a company selling goods and services online. There are lots of different types of markets, as outlined below.



What is marketing?

Marketing involves identifying and anticipating customer requirements in order to meet these requirements and make a profit. This involves the following aspects:

- Identifying: finding out what customers want, when, where, how many, and what price they are willing to pay.

- Anticipating: predicting future customer requirements.
- Discovering customer requirements: finding out what specific products customers are looking for and the features involved, such as the model or type, where it can be purchased, how it is packaged, whether you can buy it in bulk, etc.
- Meeting these requirements: responding to customer requirements by giving customers what they want.
- Making a profit: marketing activity such as market research will enable a business to predict whether it will make a profit, and roughly how big that profit will be.

A company can carry out its own market research, or it might choose to employ a market-research company like Clarocision Research & Marketing, a company that has a branch in Jamaica that provides market information relating to the Greater and Lesser Antilles.

Mass markets and niche markets

Most markets can be divided into a number of segments. Each segment consists of similar types of customers with similar characteristics, such as being in the same age group, or having similar hobbies and tastes. **Niche marketing** targets specific segments of the whole market, such as fruit-tea drinkers who are part of the larger tea market. Niche marketing activity seeks to identify who these fruit-tea drinkers are and what they are looking for.

In contrast, a **mass marketing** approach ignores this segmentation and seeks to cover the whole market, for example by providing a single type of tea which is of interest to all tea drinkers. In this situation, products are designed to appeal to the whole market.

New trends in marketing

Today, marketing activity makes it possible to find out more about customer requirements than ever before. For example, when you buy goods online, sellers are provided with a range of data about you that might include your address, most frequently bought purchases, and items that you typically buy together. The term **data mining** refers to finding patterns in large sets of data, such as in purchases made by consumers.

The use of electronic media also makes it possible for companies to use **integrated marketing**. This refers to creating a unified experience for customers when they interact with a company through a range of communication channels, including advertising, sales promotion, direct marketing (where a company interacts directly with customers) and social media marketing (see below). A company will plan its interactions with customers using a clear set of objectives, which are consistent across all of the ways it interacts with them.

Tip

You should be able to distinguish between a **market** (a situation where buyers and sellers come into contact so they can make a trade) and **marketing** (the processes involved in identifying, anticipating and then meeting customer requirements in order to make a profit).

Key term

Niche marketing: to offer and sell products to a smaller segment of a wider market. The niche market consists of specific groups of customers with specialist tastes and needs.

Mass marketing: to offer and sell products to everyone who makes up a market, using mass-selling techniques.

Data mining: finding patterns in large sets of data, such as in purchases made by consumers.

Integrated marketing: the process of coordinating messages across communication channels, so that consumers receive a consistent message about a company and its products.

Key term

Social media: Internet-based communication instruments that enable people to interact with each other by sharing information.

Market research: carefully gathering and analysing data about the market for goods and services.

Social media marketing is a form of Internet marketing that uses social networking websites. In 2018, about three billion customers around the world accessed marketing material through websites such as Facebook and YouTube. Nearly all marketers (over 90 per cent) state that they use these tools as the key form of digital marketing.

One great advantage of social media sites is that marketing messages can spread like wildfire. For example, a customer may post pictures of herself having her nails done at a particular shop, and within days, the nail bar does not have enough capacity for all of the customers that want to use its services. Adverts produced by companies like Nike will be shared by millions of social media users, so that messages are shared through the grapevine of social media exchange.

Now try these

1. Draw a diagram like the one shown on page 186, giving six markets (different to the ones shown in the diagram) in which you are personally involved (either buying or selling).
2. Identify two products you use which are targeted at a mass market, and two which are targeted at a niche market. Explain the reasons for the differences.
3. Identify the actions you have taken which have contributed to the social media marketing of a specific product. What was the product? What was the action you took? How would this have helped (or hindered) the marketing of a specific product or company?

Tip

Marketing and selling are related but different. Marketing is concerned with finding out about the customer and delivering what they want. Selling is the process of persuading someone to buy your product.

6.2

Explain marketing activities

There are many different types of marketing activities involved in marketing, including:

- finding out about buyers and their buying behaviour
- advertising goods and services in an appealing and accessible way
- distributing a product
- selling (the act of persuading someone to buy).

Market research

Market research means carefully gathering and analysing data about a market for particular goods or services. For example, a taxi firm might research the following questions.

- Who are the customers and what are their requirements?
- When do they use a taxi service?

- How much are they willing to pay?
- Are there any extras/improvements that the firm can offer?

Research undertaken by a marketing department or market research agency is aiming to find out important information that will help a business to decide which products to supply and how to market them. This information focuses on three main factors.

Factors of marketing activity	Description
Consumer taste	Consumer tastes concern what consumers are looking for in the products they buy and how their tastes are changing. For example, in the United States there has been growing awareness of the dangers of obesity, with over 40 million US citizens being classified as obese. By finding out about new patterns of demand, fast-food companies like McDonald's have been able to offer alternatives such as fresh salads, and to reduce the sugar, fat and salt content of its products, to stay relevant to consumer tastes.
Competition	It is essential for a company to know what other companies are offering consumers – and what their future plans are – in order to stay relevant and at the top of the market. At the same time, a company needs to differentiate itself from the competition, and find out what makes it different from (and better than) the competition. A successful company will continue to differentiate itself from rivals by providing the new products and services that customers want.
Consumer behaviour	**Consumer behaviour** concerns the factors that influence consumers to buy one product instead of another, and how this behaviour might change over time. It answers questions such as: • Why do consumers make a purchase? • How do consumers make a purchase? • Where do consumers make purchasing decisions and purchases?

Market research can either be quantitative or qualitative. Quantitative research is research that can be measured in numbers by asking questions such as: How much? How many? How often? Questions will be closed (they can only be answered with set responses). Quantitative research often uses a questionnaire to gather information. It can be used to gather and analyse data from large numbers of people.

In contrast, qualitative research seeks to expose customers' views and opinions. Typically this will involve a relatively small sample. For example, a market researcher may interview an individual consumer using open-ended questions to find out the person's views and opinions. Qualitative research makes it possible to answer questions such as "Why do you like (a particular good or service)?"

Key term

Consumer behaviour: the factors that influence consumers to buy one product instead of another, and how this behaviour might change over time.

Pricing

Pricing involves determining the price level for new and existing products. It is often likely to have a major impact on consumer behaviour.

Internal factors that influence pricing include the cost of producing or selling goods, whether goods need to be sold at a certain price to maximise sales or profits, and whether a company might want to project a certain image through its pricing.

Now try these

1. You have been asked to set up a **consumer panel** for the users of either a specific type of toothpaste or a specific hair product. How would you go about conducting the research?
2. Carry out some research using a small sample of people to find out about their behaviour when buying stationery. Why, how and where do they make their purchasing decisions and purchases?
3. Working with two other students, collect three unusual items of packaging. Then make notes on the key features of the packaging.
4. **Business in action**: Select three well-known local brands. Then carry out some brand image research among your friends to test their perception of the brand.

External factors that influence pricing include price decisions made by competitors, and the state of the economy (for example, if the economy is booming then a firm may be able to charge more). Consumer views about pricing are largely outside the control of the company. The government may also seek to limit the prices that producers can charge in order to protect consumers.

Packaging

Packaging refers to the materials used to pack and protect goods. The marketing department is often involved in deciding which packaging is best for each product, as this step is part of marketing and selling the product to consumers, and the colours and logos used on the packaging can help to promote the brand's image.

Customers look for different forms of packaging for different products. For example, expensive perfume is usually packaged in an interesting bottle packed in an attractive-looking box. In contrast, packaging for cheap toilet roll is often very basic.

Branding

A **brand** is a unique, consistent and well-recognised image for a product or set of products. The term "branding" relates to establishing a distinct brand, and large companies often spend millions of dollars on this process. The term "brand image" refers to the set of beliefs that consumers hold about a specific brand. The idea is that the consumer is not just purchasing the product/service, but is also buying into the image associated with that product/service.

Sales promotion

Sales promotion consists of activities and techniques designed to increase the sales of a product. Typical examples of sales promotion techniques include the following:

- free samples of a product, particularly when it is first launched
- offering an additional quantity, such as 25 per cent extra
- offering an additional good with a purchase
- discounts and price reductions.

Advertising

Advertising is a means of communicating with the buyers or users of a product, and is usually paid for by the firm offering the good or services. It includes any form of paid, formal communication about goods or services. There are many different ways of communicating through advertising, including through television, radio, websites, social media sites, posters, newspapers, and flyers pushed through people's doors or handed out in the street. The advertising method needs to be appropriate to the size of the firm and to the type of product.

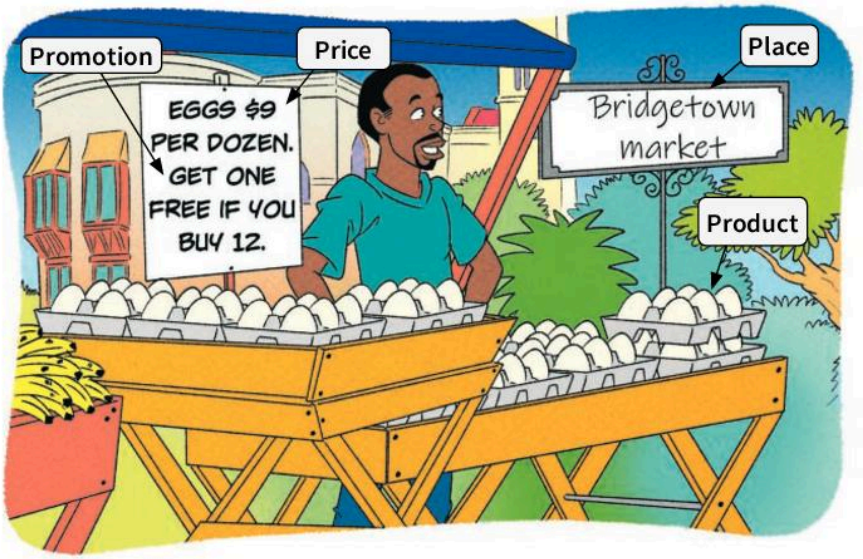
For example, television advertising might be suitable for large car manufacturers (e.g. Toyota) or soft-drink manufacturers (e.g. Coca-Cola), whereas an advert for a funeral director in Barbados might be better placed in the local newspaper.

Distribution

Distribution is the movement of goods from a source (e.g. a manufacturer) through a distribution channel (e.g. from the manufacturer to a supermarket) so that the goods reach consumers or users. Marketing activity is required to identify the best methods of distribution. Transporting goods can make up a major component of the cost of distribution (particularly when goods are for export).

6.3

Describe the "marketing mix"



The **marketing mix** relates to the four key decisions that must be taken in the effective marketing of a product. These four key decisions are often called the "4 Ps":

- product design and performance
- price
- promotion, including advertising
- place – where and how a product will be sold.

A mix is made up of ingredients that are blended together for a purpose. Think of the ingredients used to make a cake; no ingredient will work on its own. They have to be blended together to make a successful cake. In the same way that there are many cakes to suit all tastes, a marketing mix can be designed to suit the precise requirements of the market.

Key term

Brand: a unique, consistent and well-recognised image for a product or set of products.

Advertising: a means of communicating with the buyers or users of a product; any form of paid, formal communication about goods or services.

Consumer panel: a group of people who have been selected for marketing purposes to provide opinions and advice about products and/or services.

Marketing mix: the four key decisions that must be taken in the effective marketing of a product.

Product

The most important part of the marketing mix is the product, and it must meet an identified consumer need.

We like products because they provide us with benefits. For example, a cellphone is not just something that looks good; it also provides the benefits of being able to communicate through calls and texting, as well as giving us access to data information such as weather reports and the latest cricket scores.

Products have a number of features. For example, your cellphone has:

- shape
- design
- colour
- size
- packaging (when first bought).

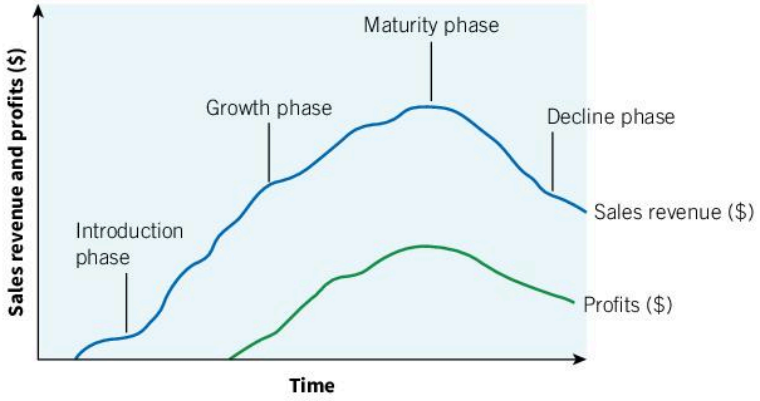
Tip

Make sure you can distinguish between the *features* of a product (such as its colour and size), and the *benefits* of a product, i.e. what it does for consumers (such as giving them a means of communication).

Key term

Life of a product: the period over which a product appeals to customers.

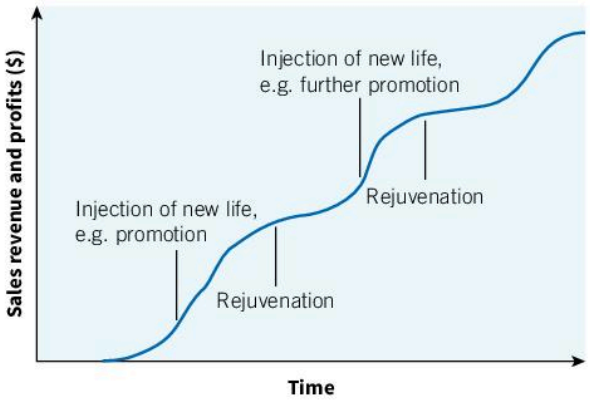
The product life cycle: The **life of a product** is the period over which a product appeals to customers. At the *introduction* stage, sales growth is slow as only a small number of people know about the product or understand its benefits. Profits start to rise in the *growth* phase, when more and more people find out about the product and want to purchase it. In the *maturity* phase, most of the potential customers have been reached. However, there may be lots of repeat purchases. In the *decline* stage, the product becomes "old" and sales start to fall. An updated or replacement product may have entered the market.



Giving new life: To prolong the life cycle, new life needs to be injected to the marketing mix. There are various ways of doing this, as shown in the table on the next page.

Way to prolong the life cycle	Description
Modify the product	Frutee is a well-known Caribbean fruit drink produced by the Barbados Bottling Company (BBC). It was first manufactured and sold in 1960, but in recent years it has gone through some major changes, including altering the products and the names of the drinks (e.g. to include Redberry Rave, Xtreme Red and Sorrel Rush). Recent changes included a new logo and flavour names in 2008, the introduction of Frutee Clear in 2010 – a clear drink with reduced calories – and a further rebranding exercise in 2012 to keep the drink relevant to consumers.
Alter distribution patterns	A business can increase the sales of its products by improving distribution patterns. The biggest change here in recent years has been the growth of e-tailing, with many Caribbean companies now selling direct to customers through online website distribution channels.
Change prices	Prices can be reduced or increased to make a product more attractive to customers. Lower prices make goods more affordable, while higher ones make them appear more exclusive.
Promotional campaigns	Advertising, 'buy one get one free' offers and other promotions encourage new customers to try out a product, and reward existing customers for their loyalty.

As a result of the changes outlined above, it is possible to periodically inject new life into a product.



Price

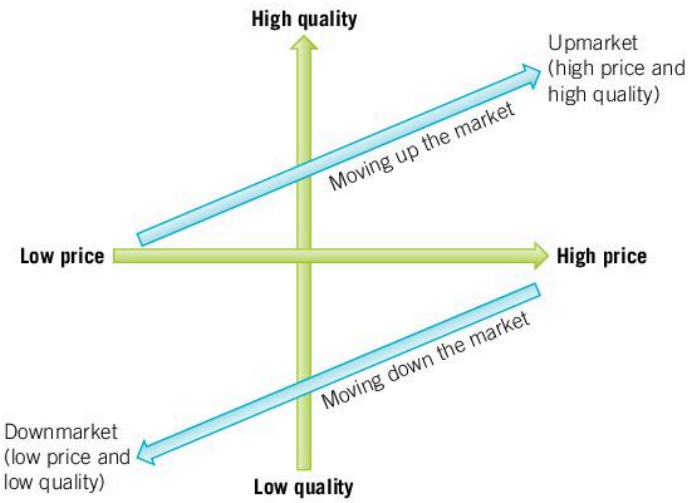
The price that a business charges will depend on the percentage of the market that it is trying to attract.

- A *lower* price can attract sales by undercutting the competition. This makes it possible to sell large quantities at a low cost per unit.
- An *average* price means a company will need to compete with its rivals through other means (such as better packaging, advertising and promotion).
- A *higher* or *premium* price can make a company appear better than its rivals in meeting the needs of customers.

How demand alters with price changes:

A market-conscious company will want to predict how demand for a product will alter as the price changes.

Demand is said to be **elastic** if there is a rise or fall in sales that is *more* than proportional to the price change. For example, if a 5 per cent increase in price leads to a 10 per cent fall in sales.



Key term

Elastic: if there is a rise or fall in sales that is *more* than proportional to the price change.

Key term

Inelastic: if there is a rise or fall in sales that is *less* than proportional to the price change.

Cost-plus pricing: setting a price in relation to the costs of production, by adding a set amount or percentage on top of the price.

Competitive pricing: setting a price that enables a business to sell its products competitively (i.e. lower than competitors' prices).

Penetration pricing: setting a low price in order to gain sales in a market. Typically used for new products of which customers have little awareness.

Skimming: pricing designed to attract different groups of customers (typically according to what customers are willing or able to pay). Pricing will initially be high to capture those willing to pay higher prices, then it will be reduced to capture those who will pay less.

Promotional pricing: pricing designed to encourage awareness of a product or brand so as to encourage new sales. Typically it involves offering products at relatively low prices.

Demand is **inelastic** if there is a rise or fall in sales that is *less* than proportional to the price change. For example, if a 5 per cent increase in price only leads to a 1 per cent fall in sales.

Knowing whether demand for a product is elastic or inelastic helps a business to maximise its revenue and to make appropriate decisions.

One example of how price impacts on sales revenue and profits is that of Caribbean Cream Ltd., which trades under the name of Kremi, and mainly produces ice cream in bulk. In 2018, it was faced with the rising cost of its two major inputs (palm oil and milk powder). Eventually, Kremi had to raise its prices to cover the increased costs, which led to reduced profits due to falling sales revenues. If demand for Kremi had been highly inelastic, then it could have increased prices straight away to cover the rising costs and maintain or increase its revenue.

Marketing departments can set the price for a product in several different ways. The table below outlines the main methods and how they are used.

Pricing method	Description
Cost-plus pricing	Calculate how much it costs to provide a particular service or product, then add on a given percentage as a profit. For example, a business may calculate that it will cost $200 to repair a car, including parts, labour and equipment. They may then decide to add on another 20 per cent as profit, therefore charging $240.
Competitive pricing	Price products lower than those of rivals. Businesses may make a loss in the short term by doing this, but they may gain sales in the long run, or even force a competitor out of business.
Penetration pricing	Start by offering a new product at a low price. A loss may be made until the new product has penetrated the market, but when market penetration has been achieved, prices can be increased.
Skimming	Start by offering a product at quite a high price. Some customers may want to be the first to buy the product because of the prestige of being seen with it. The word "skimming" comes from the idea of skimming off the top layer of cream from a quantity of milk.
Promotional pricing	A new product could initially be sold at a lower price, as a promotion to attract new customers.

Tip

You should be able to distinguish between price strategies for products when they first enter the market (e.g. penetration pricing, promotional pricing and the first stages of skimming), and price strategies for products at a different stage in the product life cycle (e.g. promotional pricing and later stages of skimming).

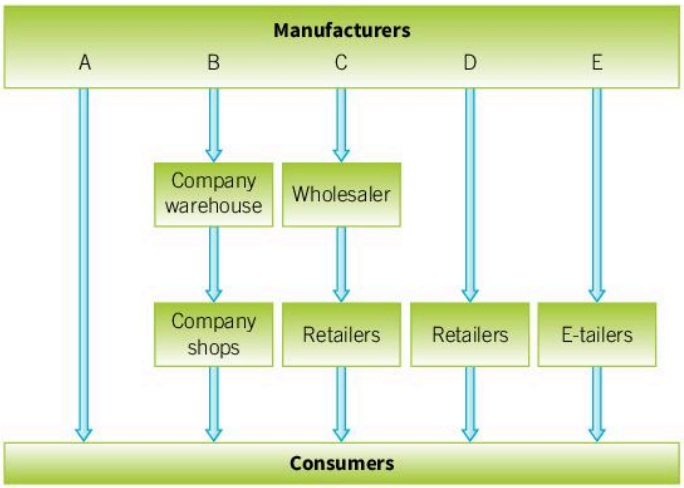
Place

Supply, or distribution as it is commonly called, makes products available to customers where and when they want them. Place decisions are concerned with deciding how products should pass from the manufacturer to the final customer. Several different channels of distribution are available for firms to use, such as a producer selling the product to a retailer who then sells it to the final consumer.

Channels of distribution: A distribution channel is the means by which an organisation and its customers are brought together at a particular place and time to buy and sell goods. This may be in a shop, via the Internet, or over the phone.

The organisations that are involved in the distribution chain include:

- manufacturers: firms that make the products
- wholesalers: firms that store goods in bulk, which they purchase from manufacturers and then sell on to retailers
- retailers: firms that sell goods to the final consumers.



Tip

Channel A is a direct channel of distribution. Channels B, C, D and E are indirect channels of distribution.

In Channel A in the diagram above, the manufacturer sells directly to the customer (e.g. the customer selects goods from a catalogue and purchases through the post).

In Channel B, the manufacturer distributes directly to its own warehouses and company shops, which supply customers. A good example is Golden Krust Bakery in the United States, which was set up by émigrés from Jamaica. Golden Krust produces large quantities of Jamaican patties and other foodstuffs, which are then sold through Golden Krust restaurants throughout the United States.

In Channel C, sometimes referred to as the "traditional channel", a manufacturer makes goods, then a wholesaler buys their goods (as well as other goods from other manufacturers). The wholesaler sells on to retailers. The manufacturer, wholesaler and retailer are all independent.

Tip

As well as being able to describe the various distribution channels, you should be able to list their drawbacks and advantages in order to evaluate the best methods.

- Direct selling allows the manufacturer to cut out intermediaries and keep all of the profit.
- Selling through a wholesaler or retailer means a reduction in the manufacturer's profit, but it means that the wholesaler or retailer can help to manage aspects such as packaging, pricing and customer service.
- Creating an online website is expensive. However, once it is running, costs of distribution are slashed, and fewer staff are required to service customer requirements.

In Channel D, retailers buy directly from manufacturers. This is easiest when the retailers have a very large storage area, or when goods can be bought in bulk.

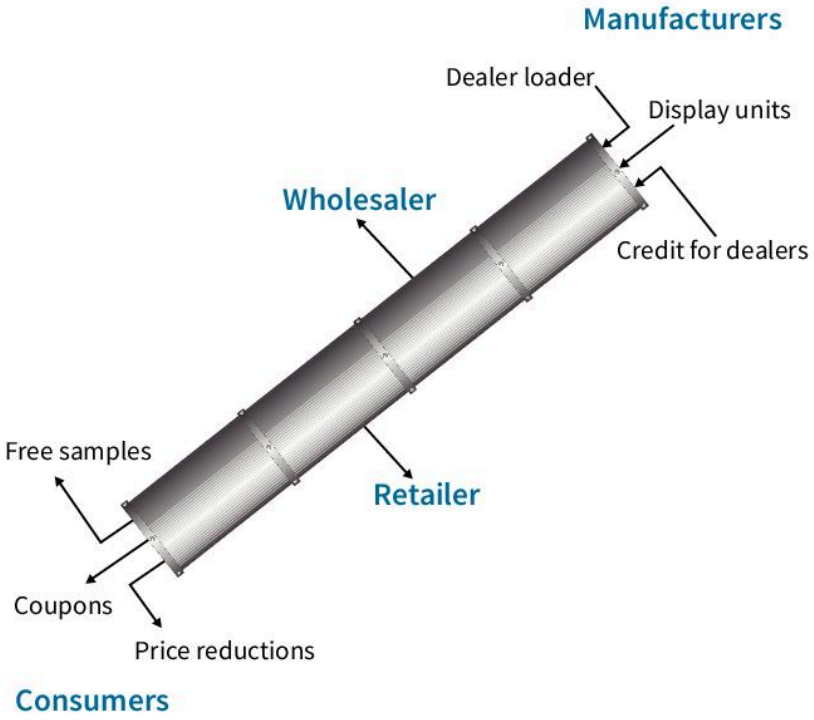
Channel E has become particularly important, as more and more households become linked to the Internet through computers and cellphones. The e-tailer is the organisation that deals with customers through an interactive website, which enables customers to buy goods online.

The more people involved, the longer the distribution channel becomes, and the more people there are taking a share of the profits. If the distribution channel is shorter, there will be more profit for the manufacturer, and the price to the customer will be reduced.

Promotion

Promotion refers to ways of spreading information about a product, brand or company.

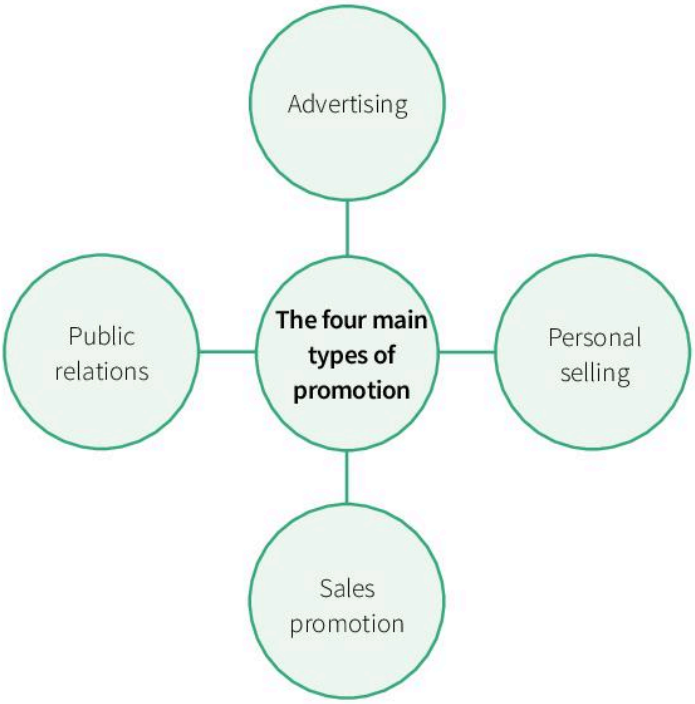
Promotion can be carried out in many different ways, such as by advertising through television, radio, cinemas, newspapers, the Internet and cellphones. Other forms of promotion include the sponsorship of events, sales promotion, merchandising (making products look attractive, e.g. in a shop window), trade shows and public relations.



A distinction is made between promotions "into the pipeline" and promotions "out of the pipeline".

- **Promotions into the pipeline** are methods that are used to sell more products into the distribution system, i.e. they are aimed at wholesalers and retailers rather than final consumers. Examples are "dealer loaders" (such as 20 for the price of 10), display units, dealer competitions, extended credit to dealers, sale-or-return, and so on.
- **Promotions out of the pipeline** help to promote and sell products to the final consumer. These include free samples, trial packs, coupon offers, price reductions, competitions, demonstrations and point-of-sale materials.

There are four main types of promotion.



Advertising: Advertising is a widely used form of promotion. It can increase sales by making consumers aware of new products, demonstrating how good products work, and reminding consumers about products. For example, in Trinidad, advertising includes outdoor billboard advertising along major traffic routes and on the sides of buses. There are many commercial radio stations with adverts targeted at different types of listeners. Advertisements can also be placed in newspapers including the *Trinidad Express* and *Trinidad Guardian*.

TriniSpace is the biggest online marketplace, and offers a free classified advertising space. In addition, there are some key television channels screening commercial advertisements, including CNC3 and CCN TV6. Advertising also takes place at cinemas, and in flyers handed out in the street and delivered to homes.

Cinema and television advertising are highly visual and can build an image. However, due to the costs involved, this type of advertising

Now try these

1. Identify one product that has recently been launched in the Caribbean, and one established product. What pricing strategies have been used with each product?
2. Select four products that you have purchased recently where some form of promotion has been used. Describe each of the types of promotion and explain how effective they are likely to have been.

is normally only used by large companies that have big marketing budgets and are looking for mass-market distribution.

Sales promotions: Sales promotions take place for a limited time to increase consumer demand. They are techniques used to encourage the purchase of goods or services. Examples include:

- competitions, contests and sweepstakes
- special price offers for a limited period
- free gifts.

Personal selling: Personal selling is oral communication with potential buyers of a product in the hope of making a sale. Initially, the seller will try to build a relationship with the buyer before going on to "close" the sale.

Public relations: Public relations (PR) involves managing the flow of information from an organisation to its "publics", in order to build the reputation of a company and its brands. PR might involve publicising a charity, informing consumers about a brand, or producing advertisements that show the company and its products in a positive light.

The purpose of each of the promotion methods described above is to increase the sales of the business.

6.4

Describe the factors that influence consumer behaviour

Groups of customers with similar characteristics can be divided into separate groups known as segments. It is useful for marketers to identify groups with similar buying patterns. Companies can then target their products, promotions and advertising. Five common segments that customers are divided into are location, age, gender, income and behaviour.

Consumer behaviour covers a number of aspects associated with how customers prepare to make a purchase (how much research customers carry out), how they make the purchase (online or at a store, with cash or a bank card, etc.), how they consume/use the product, and what they do after making the purchase. Understanding consumer behaviour is a complex process, and it is important to have a grasp of the factors that influence it.

Price

A key consideration from the consumer's point of view is whether the price reflects "value for money". Are there alternatives that provide a better "offer"? Generally speaking, the lower the price of the good, the more sales that will be made. A seller can often make more sales by reducing the price.

However, for some goods and for some consumers, a higher price is a sign of better value for money, because these consumers want some level of "exclusivity" when buying products. In these instances, consumers are prepared to pay a higher price because they feel they are getting a better product, and not everyone can afford what they can.

Price of substitutes

A substitute is any desirable alternative that could be purchased instead of a particular product.

Nearly all goods and services have substitutes. For example, there are hundreds of different types of surfboard. When surfers want to buy a new surfboard, they will look at the type of board they want, as well as substitute products (ones that can be bought as an alternative and which perform the same function). When the price of a substitute product is lower, then the demand for the other product often falls. When the price of the substitute is higher, then demand for the other product often rises.

Quality

In the business sense, quality means fitness for purpose, i.e. whether it meets a customer's requirements. A quality product could therefore be a cheap one when the consumer is looking for a low-cost item, such as a cheap razor. However, if the consumer was looking for a more comfortable shave, then he or she might see quality as being associated with a triple-blade razor or an electric shaver.

Consumers have their own mental picture of what quality means in relation to specific purchases. A manufacturer or seller has to find out how the consumer perceives quality through customer research, and therefore identify what constitutes a quality product.

Taste

Consumer taste refers to the products and services that customers deliberately choose over others, such as salads rather than hamburgers. Different consumers have different tastes. Consumer tastes may also change for a number of reasons. For example, as people get older, they stop buying certain products and switch to others. As their incomes rise, people often develop more expensive tastes.

Tastes are also strongly influenced by trends and fashions. Market research is required to keep abreast of new tastes and future tastes, so that the market-conscious company can be ready to supply the market with what it wants.

Tradition

Tradition means the passing on of culture and beliefs from one generation to another. This is particularly true in relation to traditional eating patterns, where there are distinct Caribbean cuisines that we

associate with, for example, Trinidad and Jamaica. There are also traditions associated with festivals, for example traditional sweets associated with Diwali.

Marketers can appeal to these traditions by providing traditional products, and by promoting them in traditional ways. At the same time, it is important to understand how and why traditions change, and to respond to the fact that, for example, a younger demographic might move away from some of the traditions of previous generations.

Income (affordability)

Income is a major factor influencing consumer behaviour. Rising incomes in the Caribbean since the mid-1990s – particularly among younger people – have led to a boom in demand for branded products such as expensive sneakers and designer-label clothes.

Products such as cars, jewellery and perfume are targeted at particular income groups. For example, some perfume is sold at very low prices, while other perfume is much more expensive, and designed to appeal to more sophisticated tastes and richer consumers. Richer people will be able to afford cars, washing machines and televisions, whereas poorer people may only be able to afford a bicycle and radio.

Spending patterns

A household expenditure (or budget) survey provides an outline of what households spend their incomes on. For example, in the United Kingdom in 2016, the Future of Retail study showed that consumption patterns were moving towards an "experience economy", i.e. more of household expenditure was being spent on experiences such as travel and eating out, and less on products in shops. The implication was clear: travel companies and restaurants would benefit, while traditional retailers were likely to take less revenue. In the Caribbean, we are also seeing shifts in spending patterns as more and more people spend on foreign travel, overseas study, information technology and many other items.

Behavioural segmentation makes it possible to classify customers by their spending patterns. For example, some people may buy a newspaper every day, while others only buy one when they want to read about an interesting event. Some people will always buy the same brand of washing powder, while others will compare prices and other aspects before making a choice.

Brand loyalty

A loyal customer is someone who continues to buy products from a company over a period of time, and believes that its products are better

than its rivals'. Loyal readers of *The Gleaner* will continue to purchase this newspaper, and will tell their friends that this is the best newspaper to read.

Building brand loyalty is a key aspect of marketing, and is best achieved when a company is in tune with its customers' expectations, as well as understanding changes in the wider business environment, such as changing incomes, tastes and demographics.

Now try these

1. Identify three markets/products where segmentation is most likely to be based around the age of the consumers (young/old etc.). Identify another three markets where segmentation is likely to be based on the behaviour of consumers (i.e. behavioural segmentation).
2. What factors are likely to cause consumer tastes to change? Explain your answer using an example with which you are familiar.
3. A high-priced and high-quality hotel based in Montego Bay in Jamaica had experienced problems with the occupancy rate (the percentage of rooms occupied by guests). However, in the last year the occupancy rate has risen to nearly 100 per cent. What factors could possibly explain this increase?
4. Why might consumers be attracted to goods and services because they are expensive? What sorts of goods might these be? Why might consumers be attracted to goods and services because they are cheap?

6.5

Identify factors affecting packaging and presentation of goods

Packaging and presentation of goods

The first time a customer sees a product is usually in the packaging. The diagram here gives some of the many reasons why products are packaged.

Packaging often adds value to products, but there are some negative aspects to it as well; packaging can increase the cost, and as a result, the price of a product. It also creates pollution and waste.

Now try these

1. What types of goods require the most packaging? How can the cost of this packaging be kept relatively cheap?
2. How would you package an expensive brand of perfume in order to send the message that it is an exclusive and high-price product?
3. Identify ten of the best-known and most recognisable "brand logos" that can be found in your country. How many of these actually belong to firms in your country? How many belong to firms in the Caribbean? How many belong to firms in the United States? What do your findings tell you?
4. In what ways does packaging impact negatively on your local environment? Are there any solutions that you can suggest for this issue?

Form of packaging	Appropriate for
Glass containers	Coffee, bottled milk and other drinks
Paper boxes	Tea, tissues, biscuits
Hessian sacks	Flour and agricultural products
Paper sacks and bags	Cement, sugar and other products
Metal cans	Tinned fruit, molasses and canned vegetables
Plastic	Food containers and carrying goods from the supermarket
Cardboard and wooden boxes	Transporting goods in bulk
A combination of the above	Perfume might be contained in a bottle, which is packaged in a box, which is transported in a cardboard box

Branding

Branding enables a firm to establish a position in the market, helping its products to be easily recognised and evaluated by consumers. For example, we all recognise the Coca-Cola brand, not only by its logo but by the shape of the bottle and taste of the product among other features. Branding is thus a key element of presenting products to the consumer and to the market.

The Grace Foods brand logo is "quality foods since 1922". Grace Foods provides a wide range of products associated with this master-brand. Over many years, Grace Foods has built a strong brand image so that consumers have confidence in it. The brand is as valuable as the products themselves and presents a wide range of Grace Foods products to satisfied consumers.

6.6

Describe methods of promoting sales

The main methods of promoting sales are:

- advertising
- promotion
- public relations
- sales promotion
- personal selling.

We will look at each of these in more depth below.

Advertising

Functions of advertising: There are seven main functions of advertising.

- Providing information: so customers know about your good or service, such as what it looks like, what it does, how much it costs, how to use it, etc.

- Persuading customers to buy the product: a key function of advertising is to generate sales by persuading consumers that this product is the one for them.
- Communicating brand identity: advertising needs to complement the identity that a company has already built for a brand. For example, a Coca-Cola advert will seek to communicate refreshment, zest for life, accessibility, etc. Advertising is therefore part of brand building.
- Generating demand: this involves getting the message across that the product will satisfy customer requirements, by providing them with the benefits they want.
- Maintaining customer loyalty: it is important to maintain the customer base by reminding them about the brand, the product and its attributes.
- Enabling price comparisons: by allowing customers to compare the price of your product to those of rival offerings.
- Illustrating new trends: showing customers the shape of things to come, such as what the next iPhone will be able to do, or previewing new models of cars.

Forms of advertising: There are a number of forms of advertising. Some are costlier to employ than others, but if the advertising media reaches large numbers of people who present a captive audience, then the cost can be spread widely. Cost and reach are therefore two important aspects of selecting a method of advertising.

Form of advertising	Advantages	Disadvantages
Television commercial	• Reaches a large captive audience • Enables a combination of visuals, sound and music • The use of jingles (a short slogan or piece of music designed to be remembered) can imprint a message in the minds of consumers • The cost of making the advert can be spread over thousands (sometimes millions) of viewings • Can be used for mass marketing (showing on prime-time television) or niche marketing (during specialist programmes)	• Expensive to create and make the advert • Expensive to show the advert if placed during prime-time television slots • The message can be lost on the audience, who may fail to recall the brand or product unless the advert has a clear message targeted at the relevant audience
Radio commercial	• Can reach a large audience if played on a popular radio station • Can be targeted at a specific group of listeners (e.g. Hindi speakers, cricket fans, etc.) • The listener may be listening carefully to a programme and therefore listens carefully to the message being transmitted • Radio adverts are less expensive to make, and the cost of airtime is lower than for television	• Listeners may be concentrating on something else rather than fully listening (e.g. driving their car) • Does not include visual imagery, and therefore does not fully portray what the product looks like • Is typically more expensive than other forms such as newspaper adverts and flyers

Website/online advertising	• Can reach a very large audience, depending on how frequently a site is accessed • Enables specific targeting of an audience, e.g. by placing an advert on a site accessed by specific users (such as those booking a Caribbean holiday) • Some online platforms provide users with free classified advertising space	• Users increasingly find online advertising to be a nuisance, and can block adverts • Website advertising often enables critical messaging about the brand or product, as consumers can leave negative messages and critical feedback
Newspaper and magazine advertising	• This is usually a lower-cost option than some of those mentioned above • Targeting is possible by placing adverts in specific sections of newspapers, or in magazines targeted at specific groups • The reader has more time to absorb an advertising message than when it is provided by television or radio	• Most readers spend more time on articles and not adverts • Newspapers and magazines tend to have a smaller audience • Newspaper adverts do not contain music or moving images
Bus shelter advertising and posters	• Can capture a captive audience, e.g. at a prominent location near a set of traffic lights, so that car drivers and pedestrians have to wait and hopefully read the message • Posters are usually very visual and have short and snappy messages • Putting an advert on the back of a bus means that the driver following the bus is almost certain to read it	• Posters are restricted to certain locations so only some people can see them, and they may not be the target audience • An advertising agency needs to be paid to create the advert and to take responsibility for putting posters up in suitable locations, which can be costly
Flyers	• Can be relatively cheap to produce • Can be handed out to targeted audiences, e.g. sports shop adverts handed to people queuing to enter a cricket match • Can be used as a form of promotion, e.g. when the flyer offers a 10 per cent discount at a local fast-food restaurant	• Many people refuse to take a flyer, or take one and then throw it away • Often, flyers are handed out to people who don't have the time to read them because they are thinking about something else • Flyers tend to have a very small response rate, i.e. a low percentage of people receiving a flyer take up the offer presented
Direct mail	• An excellent way of targeting potential customers because it is based on identifying characteristics (e.g. age and gender) that are most relevant to the product • Large numbers of targeted customers can be reached • Response rates can be quite high compared with other forms of advertising	• You need to be able to identify the specific characteristics of your target audience • There is a cost to acquiring a list of direct-mail contacts

Tip

Make sure you can distinguish between the functions and forms of advertising. Functions are the purposes of advertising, and what advertising does for a firm and its products, while forms are the ways in which a company advertises.

Promotion

Promotion is a way of spreading information about a brand, company, or goods and services, and can take many different forms.

- Trading stamps are paper coupons that are given to customers in return for their loyalty when they make purchases. The stamps are often stuck into a book, which can then be cashed in or exchanged for goods when a sufficient number of stamps have been collected.
- Coupons are similar to trading stamps, and are vouchers enabling a buyer to claim a discount on goods purchased. For example, when purchasing petrol at a garage, you may receive coupons that you can use to receive a discount on your next purchase. Coupons therefore encourage loyalty and repeat purchases.
- Loyalty points are usually accumulated in proportion to the amount of money spent on purchasing from specific sellers. Electronic loyalty cards make it possible for companies to record lots of different information about purchasers, such as when, where, what and how often they buy. Customers like loyalty cards because they make it possible to buy goods and services at reduced prices. All sorts of businesses offer loyalty points, including airlines, supermarkets and many online retailers.
- Rebates are a sum of money paid by the seller as a reduction, refund or return on what has already been paid by the buyer. The most common type of rebate is the mail-in rebate (MIR), which entitles a buyer to mail in a coupon, receipt or barcode in order to receive a payment for a set amount depending on the offer made by the seller.
- Bundling means offering a variety of products and services together. For example, a computer may be sold together with a bundle of software applications. This is a good way of marketing products because a lead product (e.g. a computer) can be used to promote sales of other parts of the bundle. Cable television is another example of bundling, where the buyer buys into a bundle of channels. Disadvantages of bundling are that it can be costly to manage the whole bundle. Where problems occur in one part of the bundle, resources have to be channelled away from other parts of the bundle to sort out the problem.

Loss leaders: **Loss leaders** are products that are sold by a company at a loss in order to encourage buyers to either purchase other products made by the company, or to make future purchases of the good when it is no longer sold at a loss. A classic example of this is when Gillette originally gave away razors for free, knowing that consumers would have to buy additional razor blades, and that if the razor gives a good shave then customer loyalty will be generated for the future.

For large companies, the use of loss leaders can be a good strategy to win market share, as losses can be absorbed in profits made elsewhere.

Key term

Loss leaders: products sold at a loss in order to encourage buyers to either purchase other products made by the company, or to make future purchases of the good when it is no longer sold at a loss.

The problem of offering loss leaders is that some customers are very astute, and will seek out loss leaders but not purchase other products made by that company.

Key term

Social media marketing: a form of Internet marketing that uses social media sites to generate social media activity.

Public relations: managing the flow of information from an organisation to its "public" in order to build the reputation of a company and its brands.

Social media: Social media marketing is a form of Internet marketing that uses social media sites such as Facebook, Twitter and YouTube to generate social media activity. Companies set up their own social media accounts (such as a page on Facebook), which enables them to communicate with consumers and users of products. Advertisers also provide content that can be included in the social media pages of users, enabling them to talk about the products they use (for example in the blogs created by individuals and organisations).

The benefit of social media is that information can spread very quickly and capture millions of hits in a very short space of time. Companies spend large sums of money maintaining their social media presence so that positive images are presented. Promotional techniques such as discounts and free offers are attached to social media platforms.

Tip

Social media creates online communication links between communities of people, and therefore provides a very good way of communicating marketing messages and advertising products and services. You could explain how social media can be used for marketing purposes using the example of buying peas and rice from a fast-food outlet. On Twitter, you can tell your friends, "I am buying peas and rice". On Facebook, you can write what you like about the food. On Instagram, you can upload a picture of the peas and rice. On YouTube, you can post a short video clip of you buying and eating the peas and rice, etc.

Public relations (PR)

Public relations involves managing the flow of information from an organisation to its "public" in order to build the reputation of a company and its brands. PR might involve publicising a charity, informing consumers about a brand, or producing adverts that show the company and its products in a positive light.

Examples of public relations are:

- Business entertainment: when a company "entertains" its clients, e.g. by paying for meals, or taking clients to a concert or sporting event, to provide a positive atmosphere where business can be done. The idea is to generate business by providing an ambience of friendship and shared interest. It is important to note that business entertainment should not be confused with "bribery". Business entertainment means the creation of an environment or atmosphere

that encourages positive business relationships, often through shared experiences such as watching a Test Match with a client and discussing business over lunch.

- Offering of special awards: large companies might offer special awards to new and growing enterprises or organisations that have served the community. For example, a large oil company might offer university scholarships to bright students.
- **Sponsorship**: sponsoring sports teams and other ventures, e.g. a Caribbean surfboard manufacturer might sponsor national surfing teams.

Sales promotion

Sales promotion is a tool used for a relatively short period of time to build brand awareness, to set out information about a product, and hopefully to motivate customers to make purchases. There are many types of sales promotion, including BOGOF (buy one get one free), price reductions and free samples.

Personal selling

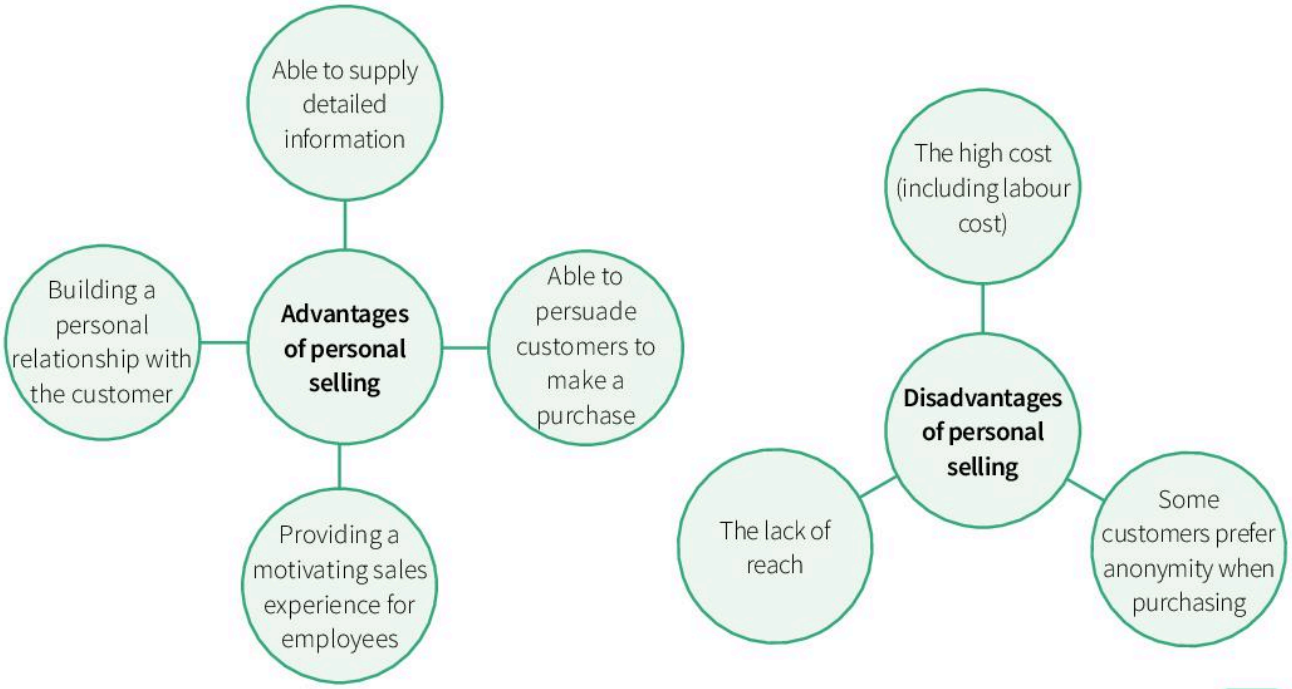
Personal selling is where members of a salesforce are directed to interact with customers in order to explain a product and how it works. Examples of where personal selling is applied include the sale of cars, computers and high-end (expensive) consumer goods. Personal selling is also used to sell cosmetics in department stores, where a seller will show customers how to apply specific cosmetics.

Personal selling is typically used where the product price is high, and an explanation is required to show how a product works.

Key term

Sponsorship: the act of giving money to help support an event, organisation or person, in return for being able to advertise your products with that event, organisation or person (e.g. being able to display your brand name and products at a sporting event that you have helped to finance).

Personal selling: where members of a salesforce are directed to interact with customers in order to explain a product and how it works.



Now try these

1. Identify three products/brands that are currently being advertised on billboards near to where you live or on your journey to school or college. What are the key functions of these adverts? Where else do these adverts appear, i.e. what other forms are used for advertising these products or brands?
2. What have you or your family purchased recently where bundling has been involved? What are the elements of the bundle? What benefits have you received from purchasing a bundle? How would the company organising the bundle benefit from bundling?
3. **Business in action**: Identify an example of event sponsorship that is currently being applied in your area. How do you think the sponsors are likely to benefit from being associated with this event?

6.7

Identify the techniques of selling

Key term

Selling: the process of getting customers to buy the product or service that you are offering.

Marketing involves identifying what customers want. In contrast, **selling** is the process of getting customers to buy the product or service that you are offering. In order to be successful at selling, a salesperson needs to convince the customer that the product or service will actually meet the customer's needs.

A salesperson needs to be able to "close a sale". However, a good salesperson knows that once they have got to the point where the buyer has decided to make a purchase, then there is no point in pushing further because this may have a negative effect.

Salespeople and their approaches

Good salespeople have the following qualities.

- They are persuasive. They can persuade someone of the benefits of a product, and how it is better than the alternatives.
- They are well informed, can talk about the product in depth, and can deal with any customer questions or concerns.
- They are credible, and are seen to believe in their product. They are advocates of the product.
- They do not try to sell a customer something that they do not want. Customers quickly lose faith in a salesperson who is overly pushy, or who appears to be dishonest about the properties and attributes of a product.
- They are enthusiastic about their work, and this is conveyed through the way they interact with customers.

- They focus on the customer's requirements rather than their own requirement to make a sale.
- They take pride in selling successfully.

There are a number of approaches that a salesperson can apply, including the following.

FAB: This stands for "features, advantages and benefits". At a simple level, the salesperson can simply outline the various *features* of a product, for example that a car comes in these colours, it can go at these speeds, it has a three-year warranty, etc.

The salesperson will often go beyond features to outline the *advantages* of a product, by showing how the product will help the customer. For example, the car can get more miles to the gallon than the customer's current car, there are easy repayment terms, the deposit on the car is relatively low, etc.

However, it is by stressing the *benefits* of a product that the salesperson is most likely to be able to make a sale. The benefits are how the product meets the specific needs of a particular customer. For example, a specific model of car will provide a customer with enough space for a comfortable drive for all the family, as well as providing the best fuel consumption. As the car has a built in satnav, the driver will not get lost when making long trips to new places.

AIDA: This stands for "attention, interest, desire and action", and is a four-stage process.

- First, gain the customer's attention. This may be through advertising, placing the product in a prominent position, or simply by appealing directly to the consumer with a well-chosen question (e.g. "Are you looking for a new car?").
- Next, win the customer's interest, by providing interesting information about the product and what it can do. You can gain the customer's interest by listening to what they have to say, such as what they are looking for, what specific consumer issues they are facing, etc.
- Then, create a desire in the customer. Here, you are persuading them that your product provides them with the benefits they are looking for, i.e. you have something that they want.
- Finally, take action. Here, the customer follows through and makes the purchase so that you complete the sale.

Closing techniques: There are a number of techniques for closing a sale:

- Direct close: when the salesperson feels that the customer is ready to buy, they simply close the deal.
- Time-limited closure: the salesperson gives the customer a set period of time to make a purchase.

Shops will try to display products in a way that maximises sales

Key term

Merchandising: the way in which products are arranged in a physical or online store to maximise sales.

Shop: a retail business where goods and services are sold.

- Incentive-based closure: the seller offers a reduction or discount if the customer agrees to make a purchase.

Merchandising

Merchandising is the way in which products are arranged in a physical or online store to maximise sales. Advertising and other promotional techniques bring customers into a store or to a website. The objective of merchandising is then to complete the sale.

Merchandising includes setting out a shop window (or opening pages of a website) in an attractive way, to gain further attention and interest from consumers, thus increasing their desire to buy your products. The layout of a store or website adds to this momentum, e.g. by placing promotional offers in appropriate places where they can be seen and picked up (or added to an electronic shopping cart), and then leading customers to an easy-to-use checkout or payment system.

Adjusting of pricing policies

The price charged for a product is a key influencer of whether sales are made. Prices need to be set at a pricing point that is acceptable to customers. This will typically involve adjusting prices so as to make them competitive and to maximise sales.

There are many different pricing policies that can be applied to achieve pricing objectives, including:

- Competitive pricing: undercutting prices of rivals.
- Premium pricing: charging a relatively high price so that customers feel the price accurately reflects the exclusive nature of the product.
- Bundling pricing: the seller bundles together a number of products, with a discounted price for buying the whole bundle.

The price of a product will be adjusted according to what stage of its life cycle it is in. For example, there may be a promotional price at the introduction stage, then higher prices during the growth stage, followed by promotional prices later on to rejuvenate interest in the product (see page 192).

Methods of retailing

There are a number of ways of selling to the final consumer as part of the retailing stage of the distribution chain.

Shops: A **shop** is a retail business where goods and services are sold. There are many different types of shops, ranging from the corner store to very large supermarkets and hypermarkets.

Supermarket chains can be found throughout the Caribbean, with a typical example being the Hi-Lo supermarkets in Jamaica, Trinidad and Tobago, and elsewhere. Large supermarkets offer consumers lots of choice, low prices and the ability to make a full range of household

purchases in one store, with easy access for car parking and easy payment systems. From the seller's point of view, a supermarket enables economies of scale (e.g. bulk purchasing and large-scale selling), so that costs can be spread over a large volume of sales. The number of employees is relatively low compared with the high volume of sales. Merchandising is important in order to display items so they are easy for customers to pick up and place in a shopping cart.

Department stores: These are a more exclusive type of shop. A department store is divided into separate departments, each specialising in particular lines, such as shoes, women's clothes, furniture and housewares. A good example of a department store is Cave Shepherd in Bridgetown, Barbados. In a department store, there is a more personal form of communication between staff and shoppers than in a supermarket. Prices will be higher in department stores, and this is reflected typically in the high quality of the products sold.

Mail order: Mail-order firms supply shoppers with a catalogue from which they can choose items. Customers then fill in an order form and post it to the mail-order firm along with a means of payment. Shoppers can take their time to browse a catalogue, and this method of shopping is particularly helpful for people who are housebound. From the seller's point of view, there is no need to pay the high rental charges for a shop, as a warehouse serves to do the job. Mail order is rapidly becoming obsolete with the increase in online shopping.

E-commerce and m-commerce: **E-commerce** (making purchases online) and **m-commerce** (making purchases through cellphones) have led to a revolution in the way people shop. It is essential that a commercial website is easy for customers to use. For example, the site should come up quickly on their screens, and it should be easy to navigate to pages that are relevant to them. Customers entering the website of a clothes e-tailer should easily be able to find a product category (e.g. shoes), then browse through various pairs of shoes. If they choose to buy, they should be able to make a safe payment quickly.

The key benefit to the e-seller is that the costs of selling the goods are slashed. Once the cost of creating an effective website has been absorbed into large numbers of sales, then the cost of maintaining the website is very low.

Telemarketing: This refers to marketing and selling goods and services by phone. It is a relatively cheap way of making sales, although a key disadvantage is that it only reaches one customer per phone call. In addition, many people may be reluctant to buy over the phone when they cannot see the salesperson or the product being sold, and may

Key term

E-commerce: buying and selling goods electronically via the Internet.

M-commerce: the trading of goods using mobile technology, typically through cellphones. It is a very recent development, and a breakthrough came in 2014 with the development of Apple Pay (a way of paying for goods and services using a mobile device such as a smartphone).

Tip

Make sure you can contrast modern methods of e-tailing with those of more traditional methods. A key distinction is made between "bricks and mortar" retail outlets and "bricks and clicks". Bricks and clicks is where a company has a warehouse or manufacturing unit to make and store goods, but the distribution to the end consumer comes about as a result of online communications, including online ordering and payment.

Now try these

1. Identify a situation where you have bought a product as a result of an interaction with a salesperson. What closing technique did he or she use? Did the closing technique encourage you to make the purchase or not?
2. What sales techniques do you think are particularly effective? Identify situations where you have been persuaded to buy something because of the approach applied by the salesperson.
3. Do you think that good selling involves making a sale as quickly as possible? What are the advantages and disadvantages of such an approach?
4. **Business in action**: Study the shop windows in a town or city centre near to you. Identify the business that you think is employing the best approach to merchandising, and explain why it is so good.

feel that they are being scammed. Many people will be reluctant to give their card details to an anonymous phone caller. Some countries set out clear guidelines and laws governing what is acceptable practice in telemarketing.

Vending machines: Vending machines dispense products in exchange for coins (and notes and bank cards in some instances). They are frequently used to dispense soft drinks and snack items such as crisps and chocolate. No salesperson is required as the customers operate the machines themselves. However, the machines do require maintenance, and they will need to be restocked periodically. Increasingly, vending machines are being used to dispense more expensive items such as digital cameras and iPads. The machines can be dispersed over a wide geographical area, but they tend to only hold a limited stock so they need to be refilled regularly.

6.8

Explain the various terms of sales

There are a number of key sales terms that you should know, and these are outlined below.

Cash

A **cash sale** is the exchange of a good or service for a cash payment. Some traders and suppliers like to be paid "cash in hand", and there are a number of reasons for this. Paying cash will provide small businesses with cash to order fresh stock, pay workers, pay other bills, etc. Cash payment is also a means of evading taxes, although such an approach should not be encouraged. Companies can use the cash to grow their business and for useful business purposes like advertising and promotion.

Credit

A **credit sale** involves giving the buyer a period of grace before he or she has to make a payment. The fact that credit is available may be seen as a benefit by the consumer, for example in the purchase of more expensive items such as furniture and jewellery.

A disadvantage of offering credit is that buyers may fail to make payments on time, or may not pay all that they owe. There is also a lot

Key term

Cash sale: the exchange of a good or service for a cash payment.

Credit sale: giving the buyer a period of grace before they have to make a payment.

of paperwork involved in managing credit payments. Often when credit is given, the seller will charge extra in the form of interest payments. Many retailers offer credit because they know it is good for their business in the long term (more items sold, higher sales revenue, more profits).

Hire purchase

As the name suggests, someone who purchases a good by **hire purchase** is effectively hiring the good until the final payment has been made. Businesses that sell goods on hire purchase will generally do this through a third party, who is often referred to as a finance house. The finance house will make a payment to the seller, and then collect payments over time from the buyer. The finance house will charge interest at quite a high rate to the buyer, therefore the finance house is effectively a money lender.

Businesses use hire purchase because this increases the volume of sales that they make. Another advantage is that the business does not have to collect the money itself. The downside is that the finance house takes a cut of the sale price in the form of charges. Should a purchaser fail to make the repayments, the finance house can take ownership of the goods (subject to rules and laws covering hire purchase in different countries).

Layaway

Under **layaway**, the seller will "lay" the item "away" in storage until the good has been paid for.

With hire purchase, the purchaser can take the item away when the deposit is paid, but with layaway, the purchaser does not possess the item until the total debt/purchase price has been paid. The buyer has a set amount of time in which to make payment.

Under a layaway system there is little risk to the seller because if the purchaser fails to make the payments, then the item can be taken out of store and sold to someone else. Layaway is frequently used when buying gifts or saving up for a special occasion such as Eid al-Fitr, Diwali or Christmas.

Consignment (sale or return)

Consignment is where goods are sent by a supplier to a seller who will typically only pay for the goods when they have been sold to the end consumer. This is frequently used in the distribution chain in the link between the wholesaler and the retailer. The wholesaler supplies the retailer, who sells the goods to the consumer. If the retailer is not able to sell the goods, they will be returned to the wholesaler or manufacturer.

Key term

Hire purchase: hiring a good until the final payment for it has been made.

Layaway: the seller will "lay" the item "away" until the good has been paid for.

Consignment: where goods are sent by a supplier to a seller who will only pay for the goods when they have been sold to the end consumer.

An example of consignment is where a newspaper publisher consigns newspapers to various retail outlets. The unsold newspapers are returned the following day or week, and the end seller is only charged for the newspapers that have been sold. This arrangement benefits the consignors because they are able to sell more goods, and the consignees benefit because they are only charged for the items that they sell. This arrangement is widely known as "sale or return".

Cash and trade discounts

Suppliers use both cash and trade discounts to boost sales.

A **cash discount** is a reduction in the sales price when the buyer pays cash immediately or within a stipulated period, such as within seven days. All businesses need cash to carry out their trading and payment activities, and are therefore prepared to give an incentive that will help them to gain cash. A benefit of offering cash discounts is that the business gains rapid access to a means of paying its own bills. Having quick access to cash also removes the risk of the payer defaulting because he or she runs into financial difficulties.

A **trade discount** is a reduction in the sales price offered to traders, e.g. by a wholesaler to a retailer or builder's merchant to a builder. For example, a building supplies firm will offer discounts to builders, plumbers, electricians and related trades. The purpose of offering the discount is to win loyal customers who are likely to place repeat orders.

Key term

Cash discount: a reduction in the sales price when the buyer pays cash immediately or within a stipulated period, e.g. within seven days.

Trade discount: a reduction in the sales price offered to traders, e.g. by a wholesaler to a retailer or builder's merchant to a builder.

Now try these

1. In June, you decide to start purchasing some presents for your relatives for Christmas. Outline the advantages and drawbacks of paying for these items by cash, hire purchase and layaway.
2. Nelson is hoping to buy some snack food in bulk for a student end-of-term party, and visits a local wholesale supplier with the idea of making some bargain purchases. He wants to sell the snacks at the party and then pay the wholesaler for them at a later date. He asks the wholesaler for a discount. However, the wholesaler tells him that he cannot offer either a cash or trade discount in the circumstances. Explain to Nelson why the wholesaler will not provide a discount.
3. **Business in action**: Irene purchases a new car outright using money in her bank account. Naveed purchases a truck by signing a hire purchase agreement and putting down a deposit. Explain the differences between Irene and Naveed in terms of their ownership of the vehicles, and the payment schedules with which they will be faced. What are the benefits to Irene of paying in cash, and to Naveed of paying by hire purchase?

6.9

List the functions of consumer organisations

Consumer organisations are groups that seek to protect the interests of consumers against abuses such as:

- unsafe products
- false advertising
- pollution
- inaccurate labelling
- inaccurate weights and measures.

Some consumer organisations focus on a specific issue, while others deal with a range of related issues.

Rights and protection of consumers

Consumer organisations will take actions such as the following.

- Provide surveys so consumers can compare products, including their features, effectiveness and price.
- Lobby governments to bring in laws to protect consumers, such as laws to do with the safety of children's toys.
- Seek to enforce consumer rights.
- Raise awareness of consumer issues and concerns.
- Create information to better inform the public about the buying decisions and choices they can make.
- Threaten direct action, such as the boycott of a company and its products.

The functions of consumer organisations therefore include the following.

- Provide a voice for consumers, particularly where there are consumer issues and complaints.
- Provide information to consumers about their rights.
- Inform consumers about products so they can make comparisons and informed choices.
- Represent consumers by lobbying governments and producers.
- Support consumers in establishing their rights.

A good example of an independent consumer organisation is the St Lucia National Consumer Association (NCA), which was formed as a result of Protocol 8 of the CARICOM Treaty, which covers consumer rights (and encourages the formation of independent consumer groups). The St Lucia NCA lobbies the government and business organisations about issues such as introducing a levy on single-use plastic bags, and getting manufacturers to reduce the sugar content in their drinks. The NCA does powerful work to inform consumers about their rights and consumer issues.

Key term

Consumer organisations: groups that seek to protect the interests of consumers against abuses by businesses.

Key term

Bureau of Standards: a body responsible for setting quality standards for the manufacture and production of goods and services within a given country.

Now try these

1. Why do consumers need organisations to protect them?
2. Why do you think that the government gets involved in consumer protection?
3. What is the purpose of a Bureau of Standards? How does the work of the International Organization for Standardization help to provide frameworks for national standards organisations?
4. **Business in action**: Carry out some research to identify a consumer organisation operating in your country or a neighbouring country. What are the objectives and responsibilities of this consumer organisation?

Government organisations and the consumer

A key aspect of a government's work is to oversee standards and laws governing the protection of consumers. For example, in Barbados, the Fair Trading Commission is responsible for consumer protection as well as promoting fair competition. In addition, there is the Barbados National Standards Institute (BNSI), whose role is to make sure that goods and services comply with set standards (for example regarding the safety of electrical appliances).

Officers working for the Fair Trading Commission carry out the following roles.

- Encouraging and educating businesses to meet the requirements of the Consumer Protection Act (key legislations covering details of consumer protection).
- Providing knowledge and information to consumers so they can make better decisions.
- Studying consumer-related materials, including advertisements, to make sure they comply with the law.
- Carrying out investigations, such as where consumers have been misled about the price of an item.

The role of quality-control organisations like the Bureau of Standards

At an international level, standards for the production and delivery of goods and services are established by the International Organization for Standardization (ISO) based in Geneva, Switzerland. The role of this organisation is to establish international standards governing the quality and methods of production of most products. The ISO helps to educate and train companies about how to create standards, for example in regards to building a safe car engine, or creating safe air-conditioning systems etc. Each country then has a **Bureau of Standards**, which is affiliated to the ISO and establishes its own standards for the production of goods and services.

In Guyana, the Bureau of Standards oversees the work of creating standards, such as standards for cellphone devices. Companies operating in this field then need to demonstrate that they are meeting the standards expected, so they can become a registered provider of cellphone devices. The purpose of the Bureau is to improve the quality and performance of goods produced in Guyana.

The role of the Ombudsman

The Office of the Ombudsman provides an additional protection for consumers and business, and specifically seeks to help individuals who feel they have been unfairly treated by a government official. The

Ombudsman is empowered to make enquiries into complaints made against a public officer.

The key responsibilities of the Ombudsman are to:

- deal with complaints from members of the public
- carry out an independent and impartial examination of complaints
- resolve these complaints
- make recommendations (after consultation) about improvements in the way that work is carried out by government officers.

6.10

Outline the role of customer service

Customer relationships are the interactions a business has with current and future customers. **Customer relationship management (CRM)** includes all ways of managing these relationships. A business can find out what customers want and expect using feedback on websites and social media, as well as other direct feedback. This can reveal the best way of interacting with customers and meeting their needs in a sustained way.

Good customer service can enhance a business's reputation and lead to repeat purchases

A key element of good customer relationships is **customer service**. Customer service is not easy to define because different customers look for different forms of service. However, customer service can loosely be defined as paying attention to customer needs by delivering a high-quality service. Taking the example of ordering a drink in a restaurant, the customer might expect to receive:

- personal attention to their needs, such as the server interacting with them to discuss their requirements
- a clear outline of how to make an order
- a speedy and polite service
- ongoing attention to any further requirements.

Customer service can therefore be defined as conformity to customer requirements.

A key element of customer service is communicating with customers. A good example of this is **customer support**, which is a type of customer service designed to assist customers in making the best use of a product. Customer service is also a vital part of coordinating the flow of goods, service and information to the customer. For example, when a customer sends a parcel overseas by means of a courier service, he or she will be given details of how to personally track the stages in the delivery of that parcel (usually online).

Because customer service is so important, many businesses will carry out ongoing research to find out how customers rate the experience. Typically, this will involve a follow-up survey to identify the specific

Key term

Customer relationships: the interactions a business has with current and future customers.

Customer relationship management (CRM): all of the ways of managing customer relationships.

Customer service: paying attention to customer needs by delivering a high-quality service.

Customer support: a type of customer service designed to assist customers in making the best use of a product.

aspects of service that the customer gives a low score in order to make improvements in these areas.

Now try these

1. Identify a form of customer service from which you have recently benefitted. What was the nature of this customer service? What form did it take? How did the customer service make you feel about the company/individuals providing the it?
2. Using the example of a visit to a swimming pool or to a gym, outline the characteristics of good customer service.
3. **Business in action**: Next time you visit the cinema to watch a film with friends, consider the customer service offered. What aspects of customer service were particularly good, and what aspects were not so good? How could the customer service have been improved?

6.11

Describe forms of customer service

Customer service takes a number of forms, as outlined below.

Warranty

A warranty is a written guarantee where the supplier sets out that it will replace or repair an item if it proves to be faulty within a given period of time. This gives more confidence to the consumer, who is more likely to make a purchase.

After-sales service

After-sales service is all the care that a business provides customers after the sale has been made. Examples include the following.

- Sending customers coupons for their next purchase.
- Online tutorials showing how to use the good or service.
- Contacting customers on the anniversary of the purchase to find out if they are still happy with the product and if they want to update it.
- Providing a maintenance and/or repair service.
- Contacting customers to identify other products that complement the one already sold.
- Providing a helpline to deal with any issues.

Each of the above techniques helps a business to build a long-term relationship with customers and to instil confidence in the brand. They also help to boost sales in the short and longer term.

Key term

After-sales service: all of the care that a business provides a customer after the sale has been made.

Feedback

Collecting **feedback** from customers is a good way of building customer relationships, and enables a company to improve its service. There are a number of ways of collecting feedback, including a telephone call, a text or e-mail, or an online questionnaire. The feedback should focus on the quality of the customer service and on the aspects of the service that the business most wants information about (for example because it wants to improve these aspects).

Online chat

Online chat is a method of communication, whereby a customer communicates with an organisation online, having a written conversation with them (for example to ask questions about a product) in real-time. Customers who are knowledgeable about technology find this a cost-effective way of dealing with an organisation. For example, Amazon enables customers to contact it by phone, but this is a relatively expensive means of communication. Amazon has therefore set up online chat, where a customer can talk to an advisor using an online conversation thread.

Toll-free numbers/call centres

Large organisations have their own call centres to deal with a range of customer-service issues. When you contact a large company, such as a utility company or a bank, you will typically reach a call centre which manages communications. Customers are given a menu of options from which to choose, including making a payment, responding to a communication (such as a letter), questioning a bill, making a complaint, recording a fault, etc.

Many of these calls will be toll-free so that the customer is not charged for contacting the organisation. Staff in the call centre are trained to answer calls in a polite and accurate way, because the company brand image is at risk should members of a call centre appear to be rude or ill-informed.

Suggestion box

A suggestion box is a way for customers to make suggestions to a company by setting out their ideas and putting them into a box. This

Key term

Feedback: information provided to a company about its brand, products and customer service, obtained through questionnaires and interviews.

Now try these

1. Identify a situation where you or a member of your family has given feedback on customer service. What feedback was given? What was the form that this feedback took? How do you think that the feedback would have been received and used?
2. A car hire firm wants to gain feedback on the customer service provided by its staff. How do you think it should go about gathering this feedback?
3. **Business in action**: Identify a situation where you have been asked to provide feedback on a product that you used. How do you think that the company carrying out the research would have used your feedback?

method of getting customer feedback is now largely outdated, as a firm is far more likely to seek feedback through telephone and online surveys.

Surveys

A customer survey is a structured list of questions delivered to a representative sample of customers, to find out their views on customer service and to identify their level of satisfaction with a company and its products.

6.12

Explain the concept of intellectual property rights

When someone comes up with a new idea, he or she should file the intellectual property rights for the idea before someone copies it. Intellectual property rights protect original ideas which are turned into products, brands and works such as music recordings or books.

There are many different types of intellectual property rights, some of which are outlined below:

- A **trademark** is something that distinguishes one company's product from those of its competitors. The symbol ® shows that a company has a registered trademark.
- A **copyright** is protection provided for authors, composers and artists. The symbol for copyright is ©.
- A **patent** grants exclusive rights to the production, sale, use and even importation of something, and can last for up to 20 years. A company that develops a new product, technique or process can seek these exclusive rights. For example, pharmaceutical companies spend billions of dollars on research. They want to reap the financial benefits of that research for as long as possible, without other companies being able to take and copy their ideas.
- A design right protects a design from being copied. A design relates to a product's visual appearance, covering aspects such as shape, colour and texture (for example the design of a garment, or the shape and structure of a car).

Key term

Trademark: something that distinguishes one company's product from those of its competitors.

Copyright: protection provided for authors, composers and artists.

Patent: this grants exclusive rights to the production, sale, use and even importation of something, and can last for up to 20 years.

In the Caribbean, separate countries have their own intellectual property offices, such as the Belize Intellectual Property Office. To be accepted as a member of the World Trade Organization (WTO), a country is required to sign up to international intellectual property legislation designed to protect copyright and patents internationally. This is known as the TRIPS gateway, where if you agree to sign up you stand a good chance of being accepted into the WTO (which gives numerous benefits associated with being able to export your goods across the globe with few if any

tariff barriers to face, depending on the products). TRIPS stands for Trade-Related Aspects of Intellectual Property Rights, and states that a country recognises the protection provided by patents, copyright, trademarks and industrial design. Businesses in Belize can therefore register trademarks, patents, etc. with the Belize Intellectual Property Office. Where a company wants to trade internationally, it may also need to register intellectual property rights in the countries where it does business.

Now try these

1. Provide a short definition of intellectual property rights.
2. Have you ever produced a piece of creative work (such as a poem, song or illustration)? Why might you need to get the intellectual property rights associated with this creative work? What form of intellectual property rights are relevant here?
3. **Business in action**: Is there an intellectual property office in your country? If so, what is the role of this organisation? Who might use the services of this organisation?

Develop your exam skills

PAPER 1

1. Which of the following describes marketing?
   - A Bringing consumers and sellers together to trade goods
   - B Identifying what customers want and then providing them with it
   - C Developing a positive image of a company through public relations
   - D Researching how customers have spent their income in the past

2. A strong brand image is one where:
   - A Many consumers have tried products associated with the brand
   - B Consumers have a positive view of the brand
   - C A company is focusing advertising on the brand image
   - D Some consumers can recognise the brand

3. Which of the following is used in m-commerce but not in more traditional methods of distribution?
   - A A wholesale warehouse
   - B A mail-order catalogue
   - C A retail shop
   - D A cellphone

4. In moving to a more upmarket position:
   - A A middle-market firm might lower its prices
   - B A down-market firm might improve the quality of its products
   - C An upmarket firm might reduce the quality of its products
   - D A down-market firm might reduce its prices and the quality of its products

5. A business brings out a new type of soft drink, which it advertises heavily and charges a low price for until the drink has become established. This is an example of:
   - A Destroyer pricing
   - B Cost-plus pricing
   - C Penetration pricing
   - D Premium pricing

6. Where a firm concentrates its marketing on a particular age group, this is referred to as:
   - A Behavioural segmentation
   - B Income segmentation
   - C Demographic segmentation
   - D Locational segmentation

7. Which of the following describes the most probable distribution pattern for goods?
   - A From the manufacturer, to the wholesaler, to the retailer, to the consumer
   - B From the consumer to the e-tailer
   - C From the manufacturer, to the mail-order company, to the consumer
   - D From the customer, to the warehouse, to the manufacturer

8. The Office of the Ombudsman deals with complaints about:
   - A Short weights and measures in the marketplace
   - B Goods that are described inaccurately by a retailer
   - C The ingredients of food products
   - D Work carried out by a government official

9. A bank offers its customers a new bank account, coupled with some basic insurance and other financial products. Selling collections of products together is referred to by marketers as:
   - A Bundling
   - B Loss leaders
   - C Public relations
   - D Branding

10. A business researches its market by developing a questionnaire, which it delivers itself to a large number of potential customers. The questionnaire is an example of:
   - A A focus group
   - B Primary research
   - C Secondary research
   - D Observation

PAPER 2

1. (a) List three (3) factors that influence consumer behaviour. **(3 marks)**
   (b) Describe two (2) methods of promoting sales. **(4 marks)**
   (c) Explain two (2) sales techniques. **(4 marks)**

2. (a) List two (2) functions of consumer organisations. **(2 marks)**
   (b) Explain the role of customer service. **(4 marks)**
   (c) Describe two (2) forms of customer service. **(4 marks)**

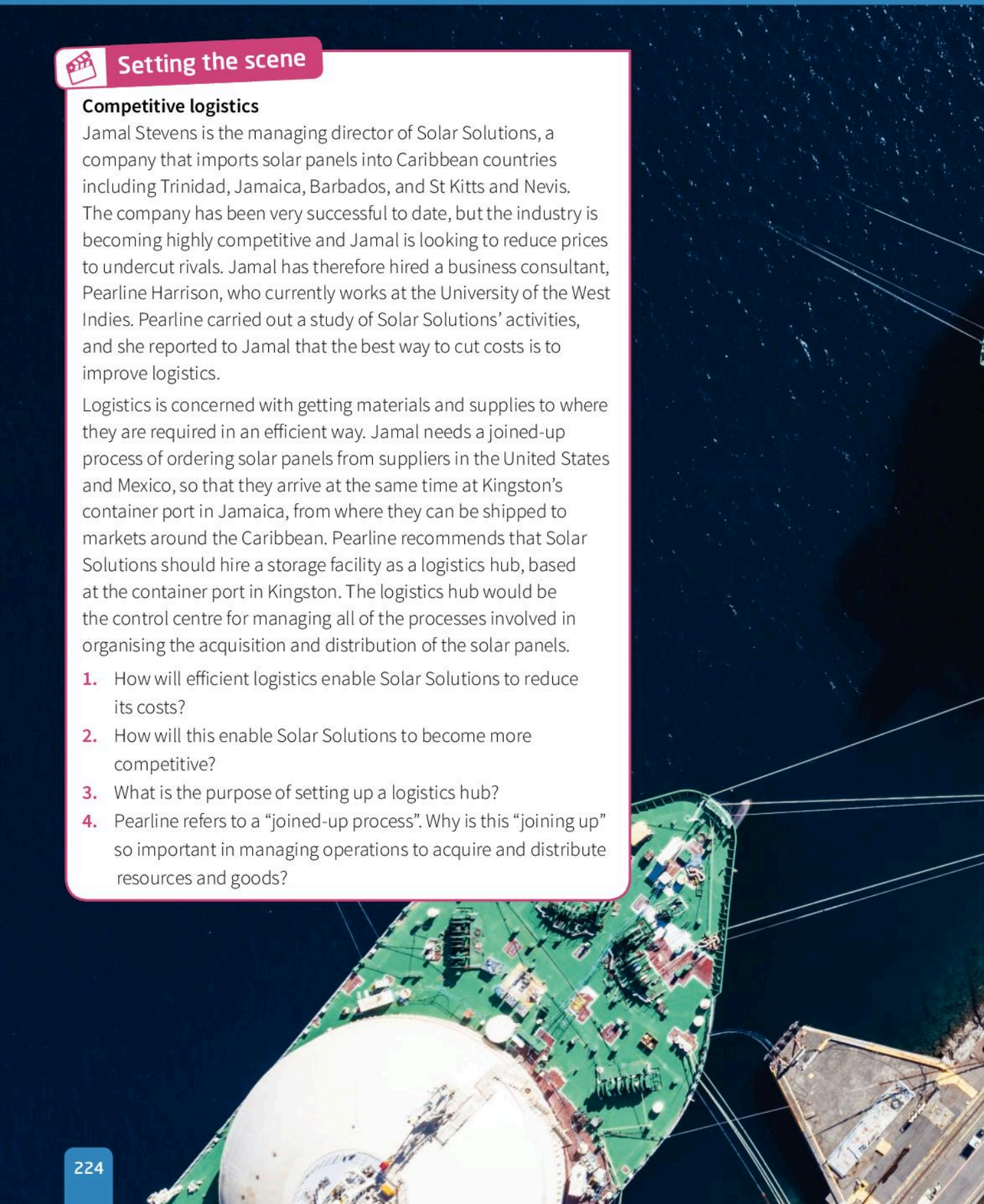
3. (a) List two (2) ways to extend a product life cycle. **(2 marks)**
   (b) Explain a product life cycle. **(4 marks)**
   (c) Discuss how two (2) pricing strategies affect product demand. **(4 marks)**

4. (a) Define the term "marketing". **(2 marks)**
   (b) Distinguish between the functions and forms of advertising. **(6 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

7 Logistics and supply chains



Setting the scene

Competitive logistics

Jamal Stevens is the managing director of Solar Solutions, a company that imports solar panels into Caribbean countries including Trinidad, Jamaica, Barbados, and St Kitts and Nevis. The company has been very successful to date, but the industry is becoming highly competitive and Jamal is looking to reduce prices to undercut rivals. Jamal has therefore hired a business consultant, Pearline Harrison, who currently works at the University of the West Indies. Pearline carried out a study of Solar Solutions' activities, and she reported to Jamal that the best way to cut costs is to improve logistics.

Logistics is concerned with getting materials and supplies to where they are required in an efficient way. Jamal needs a joined-up process of ordering solar panels from suppliers in the United States and Mexico, so that they arrive at the same time at Kingston's container port in Jamaica, from where they can be shipped to markets around the Caribbean. Pearline recommends that Solar Solutions should hire a storage facility as a logistics hub, based at the container port in Kingston. The logistics hub would be the control centre for managing all of the processes involved in organising the acquisition and distribution of the solar panels.

1. How will efficient logistics enable Solar Solutions to reduce its costs?
2. How will this enable Solar Solutions to become more competitive?
3. What is the purpose of setting up a logistics hub?
4. Pearline refers to a "joined-up process". Why is this "joining up" so important in managing operations to acquire and distribute resources and goods?

Objectives

After reading this chapter, you should be able to:

1. Explain the terms "logistics" and "supply chain operations" 226
2. Describe the links in the chain of distribution 230
3. Distinguish between multimodal and intermodal transport 232
4. Interpret information on transport documents 238
5. Explain the role of transport in marketing 241
6. Identify advantages and challenges of supply chain operations 243
7. Explain the impact of logistics and supply chain operations on the competitiveness of business 246
8. Identify the problems likely to be encountered in distribution 248
9. Outline measures to mitigate problems in distribution 250
10. Outline the impact of information technology on logistics and supply chain operations 252

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

7.1

Explain the terms "logistics" and "supply chain operations"

Logistics

Logistics is the coordination and organisation of complex operations. Typically, it involves getting hold of resources, and then planning a sequence of well-structured steps to organise delivery to where those resources are needed. In business, logistics is focused on getting products to where the customer wants them, while at the same time making sure that associated operations are carried out efficiently (such as forwarding paperwork, organising insurance and coordinating storage).

For example, a music collector in Germany wants to purchase a copy of *Island in the Sun*, a double CD charting the history of Caribbean music. The collector orders a copy from an e-tailer in Barbados. Logistics (organised by the e-tailer) is involved in getting the CD to the customer in a safe and timely way.

Similarly, a builder in St Lucia requires 1 200 bags of cement over a six-month period, delivered in batches of 200 bags per month from the Arawak Cement Plant in Barbados. Logistics (on the part of the Arawak Cement Plant) is the process of organising the delivery of the goods on time to where they are required, as well as the processing of payments and other paperwork involved in the transaction. This involves a lot of coordination. For example, the driver delivering the cement will need to know the location for the delivery and to have suitable equipment available for loading and offloading the cement bags, as well as having somewhere to store the bags, and the necessary paperwork as proof of delivery.

Key term

Logistics: the coordination and organisation of complex operations.

Supply chain operations: the management of the flow of goods and services.

Monitoring: observing, recording and checking that systems are working effectively in order to be able to make corrections where necessary.

Supply chain operations

The term **supply chain operations** refers to the management of the flow of goods and services. Goods and services need to flow from a particular starting point (point A) to the end consumer (point B). The entire chain is called the supply chain. Supply chain operations are therefore the steps taken to manage the flow of goods and services along the supply chain. This management will include:

- designing and planning the supply chain
- setting up and organising the supply chain
- controlling the supply chain
- **monitoring** how well the supply chain works
- making improvements to the supply chain.

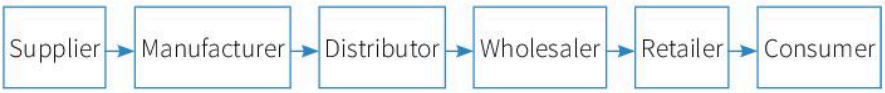
There may be a number of components to the supply chain, such as the movement and storage of raw materials, the movement and storage of partly finished goods, and the movement and storage of finished goods.

For some products, supply chain management requires complex logistics. For example, at the Puebla Volkswagen **assembly** plant in Mexico, components and **sub-assemblies** will need to be transported from all over the world for final assembly.

The components of logistics

Forward and reverse flow of goods: Forward logistics consists of a flow of operations designed to move a product forwards along a supply chain, from the supplier of raw materials to the end consumer.

Typically, goods and services will flow forwards from the supplier to the consumer. A key aspect of logistics involves the organisation of the flow of goods, i.e. actually getting them from one place to another. There are a number of steps involved in the flow of goods. This is illustrated in the following diagram.



The manufacturer will need to secure supplies of raw materials and components from the supplier. The manufacturer will then need to move and store raw materials, parts and finished goods around a production plant. Finished goods then flow to a distributor, who sends the goods on (or simply organises the distribution process) to a wholesaler. The wholesaler holds goods in bulk before they flow to the retailers, who sell goods to end consumers. At each stage of the supply chain, logistics are required to move components and goods around.

There is also likely to be a reverse flow in the supply chain. **Reverse logistics** consists of all operations involved in returning goods from the end consumer backwards down the supply chain. Reasons for a reverse flow include:

- the return of goods that are not required
- the return of damaged items
- the return of items or parts of items to enable recycling.

If goods are not wanted or not used by the consumer, the manufacturer or retailer may want to resell or refurbish the goods, or reclaim some of the parts.

Tip

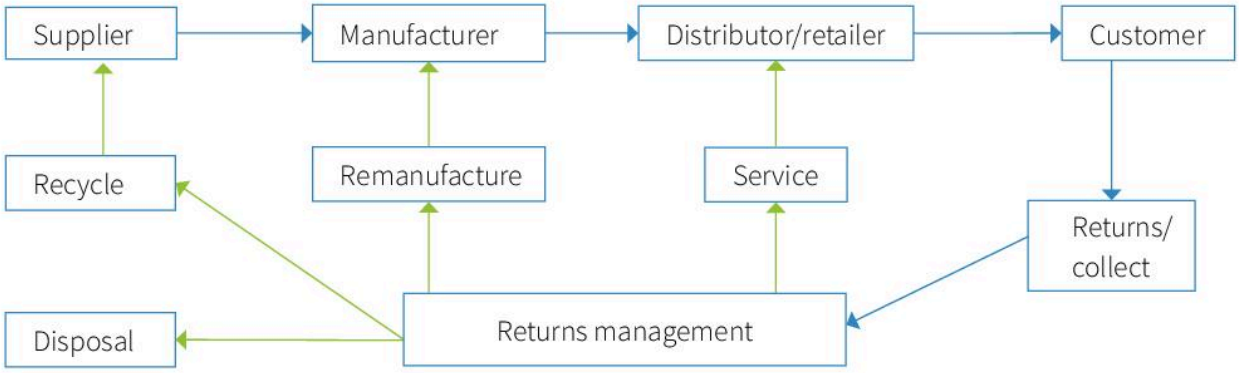
Make sure you can explain that logistics is concerned with the flow and storage of goods inside and outside a firm, whereas supply chain management is concerned with the movement and integration of supply chain activities.

Key term

Assembly: putting a product together. A finished assembly would involve putting together all of the sub-assemblies into a finished product.

Sub-assembly: part of a finished product that has involved bringing together a number of components into a partially finished product, such as the engine of a car, or the chassis of a car.

Reverse logistics: operations related to the reuse of products and materials. It involves planning, implementing and controlling the cost-effective flow of raw materials, inventories and finished goods from the point at which they are consumed to the point from which they originated.



Tip

Make sure you can illustrate the difference between forward and reverse logistics. For example, draw a diagram to show how forward logistics flows from suppliers to consumers, whereas in reverse logistics, the flow is away from the end user.

The diagram above shows that the consumer returns goods or parts of goods. These may be serviced by a distributor or wholesaler. Some goods or parts are returned to manufacturers, where they may be remanufactured for resale. Other goods or materials are returned to the supplier, who may recycle them.

Logistics can be separated into a number of key components.

- Procurement logistics: selecting suppliers and negotiating contracts for the delivery of raw materials, parts, sub-assemblies and finished goods.
- Production logistics: how production is organised, such as the layout of machinery in a factory, and how goods will be produced.
- Distribution logistics: how and when goods are delivered.
- Disposal logistics (also referred to as reverse logistics): the reuse of products and materials.

Storage of goods: At each stage in the supply chain, goods, parts and raw materials will need to be stored. One element of logistics planning therefore involves planning what type of storage facilities are required, where they will be located, and how goods/parts will be moved in and out of stores. Examples of stores are warehouses for storing finished goods, as well as stores for holding parts and raw materials.

The Japanese have developed an approach to store management that involves minimising the amount of goods stored through carefully organised logistics. This approach is called "just-in-time". The finished goods are completed just in time to meet customer orders, sub-assemblies are completed just in time to make final assemblies, components are supplied to sub-assemblies just in time to be assembled, etc. When a production team needs parts, they signal this to the earlier part of the production line, for example by pressing a buzzer.

Reducing the need for stores means that storage can be much better organised, and factory space can be reduced. There are fewer damages and breakages as a result, stock does not pile up, and storage space is cut down. All of these factors lead to reduced costs of production and distribution.

Other supply chain services: As well as managing the flow and storage of goods, logistics involves coordinating and organising other services. For example, it will usually be necessary to insure goods, particularly while they are in transit, as well as while they are in storage.

There are a number of flows involved in a supply chain that need to be managed by logistics.

- Product flow: the movement of goods and services from suppliers to customers, or customers back to suppliers.
- Financial flow: the organisation of payment and payment terms.
- Information flow: the organisation of information about orders and the status of delivery (such as whether goods are on their way and when will they arrive).
- Risk flow: including the insurance of risks while goods are in store or in transit.

You can therefore see that supply chain management can be very complex. This is particularly true for goods and services that are internationally traded and involve multiple movements of goods, multiple links between businesses, multiple sets of official paperwork, multiple insurance contracts, multiple forms of transport and different carriers, and so on.

Activities involved in supply chain operations

There are a number of key supply chain operations. For example, in the case of Blue Mountain Coffee in Jamaica, the coffee is grown on coffee plants by farmers. When the coffee is ready, it will be in the form of cherries that are picked from the plants and transported to a coffee depot where they will be weighed and collected. The cherries will then be transported to a processing plant, where they are pulped, dried and milled. The beans can then be bagged up and prepared for roasting.

Much of the annual output of Jamaican Blue Mountain Coffee is exported overseas. This involves multiple supply chain operations, including bagging, labelling, storing, transporting, insuring and creating export paperwork. It also involves dealing with a range of different businesses, from international distributors and coffee merchants to traders and cafes.

Numerous processes and stages are needed in the supply chain to transform raw coffee grown in Jamaica to a drink that can be enjoyed in a coffee shop abroad

The key activities in supply chain operations include the following.

- The transformation of natural resources (e.g. growing the coffee cherries on farms).
- The movement and storage of raw materials (e.g. moving the cherries to a coffee depot and then to a processing plant).
- The processing of raw materials and components into finished goods (e.g. drying, milling and bagging the coffee beans).
- The storage of work-in-progress and finished goods (e.g. storing coffee in various forms at the coffee depot, processing plant, wholesale warehouse and export warehouse).
- The delivery of the finished product from point of origin to point of destination (e.g. transporting the cherries to the depots and then to the processing plants, and shipping the beans overseas to places like Paris, London and Tokyo, as well as to coffee traders in Jamaica and other parts of the Caribbean).

Now try these

1. Using the example of fresh eggs moving from farms to a retailer and then on to the final consumer, identify points in the supply chain where the eggs might need to be stored. Why is it essential to move the eggs quickly down the supply chain?
2. In the example above, who do you think should be involved in organising the supply chain?
3. Why is logistics so important?
4. Which of the following would involve forward logistics, and which would involve reverse logistics? In each case, explain why.
   (a) Delivering metal from an extraction plant to a manufacturer.
   (b) Returning bottles to a retailer so they can be recycled.
   (c) Bringing a computer that is malfunctioning back to the shop which supplied it, for repairs.
   (d) Transferring industrial waste from a manufacturing plant to a waste disposal unit.
5. **Business in action**: Identify a product that is grown or extracted from raw materials in your home country. Set out the key activities involved in the supply chain for this product. Who is involved? What are the key activities? You could set this out in the form of an illustrated poster.

7.2

Describe the links in the chain of distribution

Distribution is the process of getting goods from their original source to the end user or consumer. The chain of distribution is made up of a number of businesses that are linked together, and through which goods pass on their way to the end consumer. The chain of distribution

typically comprises four key links (although with the development of e-commerce, some of these links are no longer always required). These links are: manufacturer, wholesaler, retailer and consumer.

Manufacturer

The **manufacturer** makes the product. There may actually be several manufacturers who together make one product. For example, in the manufacture of air conditioning units, there will be different manufacturers who make the basic metal sheets, supply the electrical components, assemble the units, etc.

Manufacturers will deal with wholesalers and retailers in order to win orders from them. The manufacturer is responsible for the delivery of goods to the wholesaler or retailer within a specific time frame, and the goods need to be fit for purpose. The exception is where the manufacturer has arranged a contract with a delivery firm to deliver the goods, in which case, the delivery firm is responsible for the state of the goods once it takes charge of them.

Key term

Manufacturer: a business that makes goods, usually by processing raw materials.

Wholesaler: a business that stores goods in bulk.

Retailer: a business outlet selling goods directly to the final consumer.

Wholesaler

A **wholesaler** is an intermediary that stores large quantities of the product at centralised distribution points. Wholesalers are particularly important where manufacturing takes place in locations that may be a long way from the end consumer, or where the wholesaler stocks goods from multiple manufacturers.

The wholesaler is essentially a large storage unit, and may carry out operations such as the packaging, grading and labelling of products. Retailers can place orders with wholesalers by using an order form, ordering online or visiting their warehouses. Wholesalers will often allow retailers to make purchases on credit terms, so they help to provide finance in the distribution chain.

Increasingly, wholesalers are developing an online presence, enabling them to reach both retailers and consumers. A good example is Sam's Caribbean Marketplace, which sells a range of different Caribbean products online.

Retailer

Retailers interact directly with consumers, either through a store or an online website. They also deal directly with manufacturers, or through an intermediary such as a wholesaler or online distributor. Retailers form contracts with wholesalers in terms of how and when goods will be delivered. They deal in smaller quantities of individual products than wholesalers or manufacturers; the term "to retail" literally means "to cut again", i.e. to cut larger quantities into smaller quantities.

Now try these

1. The chain of distribution can be represented as a linked chain. How can logistics help to make these links effective?
2. How do wholesalers benefit manufacturers and retailers?
3. Are there any links in the chain of distribution that could be removed? What would be the benefits and drawbacks of cutting out these links?
4. **Business in action**: From where would you buy a newspaper or magazine? Interview the newspaper/magazine seller to find out where they get their supplies from, and map out a chain of distribution for newspapers and magazines in your area.

Key term

Consumer: the end user of a product.

Mode of transport: the means by which goods are moved from point A to point B.

There are a variety of different types of retailers.

- Big-box stores: also called hypermarkets, these are a cross between a department store, a very large supermarket and a discount store. They are often open 24 hours a day, and deal directly with manufacturers.
- Supermarkets: large retailers offering self-service and quick-flowing checkouts, and multiple types of goods ranging from fresh fruit and vegetables to cleaning products, pharmaceutical items and many other things. Supermarkets typically deal directly with manufacturers.
- Discount stores: retailers selling low-cost items at a low profit per item with the purpose of maximising sales. They tend to stock a relatively narrow range of products, and often buy items directly from manufacturers.
- Department stores: large stores split into departments which focus on specialist items, such as perfumes, toys, etc. Prices are relatively high to reflect the city-centre location of such stores.
- Mom and Pop stores: neighbourhood stores selling a range of household goods in a convenient location. Prices tend to be a bit higher than in supermarkets, and shop owners often buy most items from wholesalers.
- E-tailers: online stores that sell goods through a website. They will usually store goods in a warehouse and then deliver them to the end consumer using vans or other vehicles.

Consumer

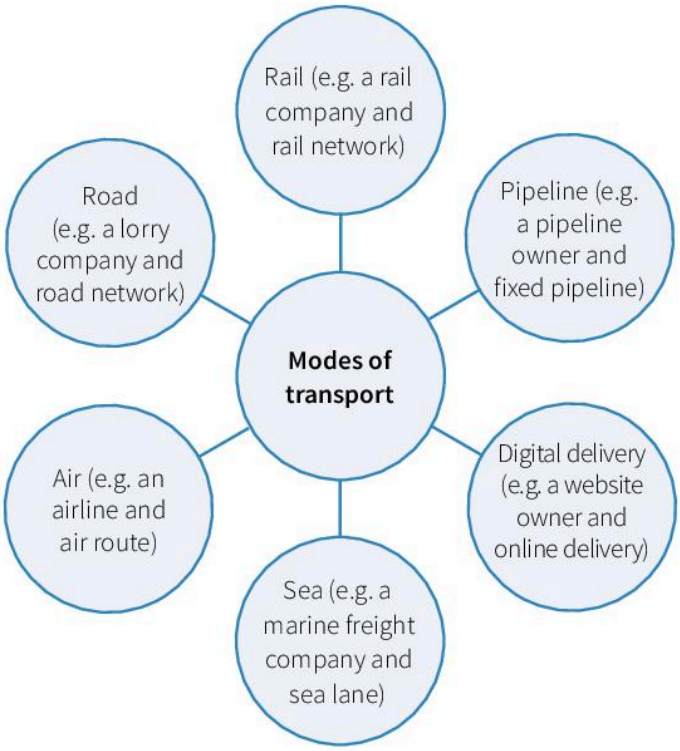
The **consumer** is the end user of a product. Consumers typically buy from retail outlets such as supermarkets. From the consumer's perspective, the effectiveness of the supply chain will be very important. Consumers want to receive the goods they order on time, at a suitable price, and with the minimum of fuss, paperwork and risk.

7.3

Distinguish between multimodal and intermodal transport

A **mode of transport** is the means by which goods are moved from point A to point B. The mode of transport will include:

- a vehicle, e.g. a specific freight train
- transport infrastructure, e.g. a particular railway line (or network)
- operations involved in making the journey, e.g. booking space on a freight train, getting the cargo to the train, loading and offloading.



There are several alternative modes of transport that can be used. Factors that determine what constitutes a suitable mode of transport include the following.

- How effective is a mode of transport in a particular area? For example, rail transport does not exist in most areas of the Caribbean. Air transport is only relevant in countries with airports that handle freight. In some Caribbean countries, parts of the road network are poor.
- How valuable are the items being transported? Where items are of high value, more expensive forms of transport such as air are more relevant.
- How quickly are items required? If deliveries are not urgent, it might be possible to send goods by sea. If urgent, air transport is a quick method of transportation.
- How fragile/breakable are the items? Fragile items need to be handled as little as possible, so a single air flight might be preferable to multiple trips by land and sea.
- Is it possible to minimise the risk of goods being stolen? Sending the goods by a single carrier will be less risky than breaking the journey into several stages involving a number of carriers.
- Is it possible to reduce the amount of paperwork and customs checking? If goods can be sent by air, this will typically involve only a small number of documents. Where goods are moved through several countries, a lot of paperwork may be required.

Modes of transport and their suitability for different goods

Air: Most Caribbean countries have an international airport, partly because of the high levels of tourism to the region and also because of the need to transport international freight.

Advantages of air transport	Disadvantages of air transport
• It is relatively cheap for expensive items such as jewellery, cosmetics and high-price garments • It is relatively cheap for sending small and light items, such as cellphones, watches and jewellery • It is a very fast method of delivery, particularly where little paperwork is required • It avoids the need for several handlers (transport companies), as a flight can go directly from point A to point B very quickly • Most Caribbean countries have an airport	• The cost of sending bulkier items will be high • Flights to smaller countries in the Caribbean may be infrequent

Rail: Rail is an excellent way of transporting heavy raw materials and goods over large distances, and is particularly relevant in large countries such as India, China, the United States, Canada and Brazil. The further the distance, the greater the advantage for rail over other modes of transport; it is easy to change the driver of a freight train, but not as easy to change the driver of a plane or ship.

However, rail transport is largely irrelevant in the Caribbean. Most railways have closed down in Caribbean countries. Trinidad has considered building railways in recent years, but scrapped these plans partly due to the decline in oil prices and the high cost of acquiring land. Jamaica has also considered reintroducing some railway lines, but with little progress to date.

Road: Road transport is the most widely used form of transport for carrying goods and passengers.

Advantages of road transport
• Roads are better integrated with other forms of transport, with roads reaching airports, seaports, rail terminals and pipelines • Roads enable door-to-door delivery from supplier to customer • Roads are (mostly) open 24 hours a day, making the scheduling of journeys much simpler than for other forms of transport • Roads enable the carriage of small cargoes (e.g. in a van) as well as substantial loads (e.g. by container lorry) • Most Caribbean countries are relatively small, therefore road transportation is relatively quick • It is much quicker to load a lorry than a freight train, ship or aircraft • Businesses can employ their own fleet of vehicles, so they are not dependent on other carriers • The cost of road transport is lower than other forms because capital costs are relatively low (e.g. a lorry is much cheaper to buy than a train or a ship) • Road transport is highly flexible, with route planners able to choose routes and timings • Road transport is convenient when making deliveries to rural locations that may not have terminals for other forms of transport

Disadvantages of road transport
• In some Caribbean countries, parts of the road network are poor due to lack of repairs and weather damage • Fuel costs are relatively high • Road transport suffers from adverse weather conditions which can make driving difficult, particularly in the rainy season • Accidents and breakdowns can impact on delivery • Road transport is unsuitable for long distances when compared with other forms of transport

Marine (cruise and cargo): Carrying goods by sea is a very economical way of transporting them over long distances.

A giant ship can carry very large cargoes while avoiding all of the obstructions that you find on land. A good example of this is the *Blue Marlin* ship, which can carry a cargo of up to 75 000 tonnes (the *Blue Marlin* has carried 4 pontoon bridges and 18 ship's hulls all at the same time). Marine transport is highly effective for carrying heavy loads.

The Blue Marlin *can carry vast cargoes across the sea*

In the Caribbean, the limitation on the size of ships is the depth of the water in a port facility, and the length of space available for anchoring when loading and unloading. The largest ports in the Caribbean are at Bridgetown (Barbados), Grand Bahama (the Bahamas), and Port Lafito and Port-au-Prince (Haiti).

A large, deep-water port gives a country a real competitive edge. For example, Barbados has one port which sits on 100 acres. It is a multi-purpose facility which handles cruise and cargo ships. There are separate terminals for cruise ships and separate terminals for cargo ships.

Advantages of sea transport	Disadvantages of sea transport
• It enables the carriage of very large loads (cargo as well as tourists) • It avoids the hold-ups associated with land transport • It is a relatively cost-efficient way of transporting goods and materials • It is a good way to carry loads that are bulky, not perishable and not required urgently, e.g. iron ore or oil. It is also a good way of carrying containers over long distances. Extremely large loads can be transported on a container ship.	• It has a longer delivery time • Bad weather at sea can impact on delivery times, and possibly cause cargo damage • It is not easy to identify the exact location of cargo while it is in transit • Customs and excise restrictions might mean that goods need to be checked at several ports before they reach their final destination • It can be expensive

Pipeline: Pipelines provide a highly efficient way of carrying oil and gas, particularly over long distances.

- Gathering pipelines are short pipelines a few hundred metres long, which are designed to gather fuel from where it is delivered (e.g. onshore from an oil well) and carry it to a processing plant (e.g. a nearby refinery). Transportation pipelines are much longer and bigger pipes (about the diameter of a large pizza), and carry liquids and gas very long distances (sometimes for thousands of miles). Distribution pipelines take water, oil and gas to the end consumer, such as to their homes (the pipes here will be about the diameter of the inner tube of a kitchen roll).
- Pumping stations are used along a transportation or distribution pipeline to keep liquids or gas flowing.

Advantages of pipeline transport	Disadvantages of pipeline transport
• Once the pipes have been built, it is a cheap way of transporting bulk liquids and gases • It is a relatively safe way of carrying fuels, particularly where the pipeline is underground • Pipelines can be built direct from a source to the end consumer, through a combination of transportation and distribution pipelines • Once they have been installed, the infrastructure (pipeline) will require considerably less maintenance than other forms of transport	• Pipelines are expensive to construct and assemble (they are typically made out of metal and/or plastic pipes) • It is a relatively slow method of transport over long distances, e.g. in Canada it takes about a month to transport fuel from Alberta to Southern Ontario by pipeline • If fuel is stolen from the pipeline, this can be very dangerous • Pipelines require pumping stations, which need to be maintained • Where dangerous fuels are carried, pipelines need to avoid built-up areas

Tip

You should be able to explain the advantages and disadvantages of each mode of transport in the context of a specific type of cargo. For example, what would be the best way of transporting heavy goods in large volumes when there is no rush for a quick delivery? What would be the best way of delivering blood for medical purposes?

Digital delivery: With the development of e-commerce, digital delivery has become an important new way of doing business. Digital delivery involves distributing content and other services over the Internet. Obvious examples of this are books, music and films.

Digital delivery is also a good way of delivering services online. For example, taxpayers can fill in government tax forms online, saving time and effort. Insurance companies can sell insurance policies online, with the customer doing the work of buying the insurance by filling in an online questionnaire and making a payment through the website. Similarly, many customers today do their banking online. Many educational courses can be purchased online. Another type of digital delivery comes in the form of virtual products. These are products such as computer games, which are very popular and provide large income streams.

Most businesses today deliver digital content through the supply chain, whether this is communicating with suppliers and customers online or developing online websites for the purpose of e-trading.

Advantages of digital delivery	Disadvantages of digital delivery
• Once websites and payment systems have been set up, it can be a cheap way of providing content and services • Digital delivery enables customers to have access to more information, to buy digital services in their own time, and it enables much faster searches for information • Digital delivery enables the rapid distribution of non-physical products and services • Because so many people use the Internet, the potential customer base is very large • Digital delivery supports other modes of transport, e.g. by enabling the tracking of parcels that have been sent to another country	• Not everyone has access to fast Internet services; there is a regional divide in terms of which countries have the fastest and slowest broadband • Digital delivery is not appropriate for bulky physical products • Information on the Internet can be copied rapidly and hacked by unscrupulous competitors

Contrasting intermodal and multimodal transport

Intermodal transport involves the delivery of cargo using two or more modes of transport. The freight is kept in a sealed container or vehicle for the length of the journey.

For example, an exporter in Barbados supervises the packing of a container in Bridgetown, which is shipped to the east coast of the United States, then carried by freight train to a terminal in central United States, where it is carried by road to its final destination. There is no intermediate handling of the freight.

Disadvantages for the exporter are that it will have to deal separately with each transport carrier, and separate contracts will need to be made for each mode of transport. However, the advantages are that the exporter can choose which transport companies to deal with, and can give them fresh instructions during the course of the movement of the goods. Also, as the goods are held together, there is less chance of them being stolen or damaged during transfer from one mode to another.

Multimodal transport also involves two or more modes of transport, but here, the exporter deals with a single carrier who is responsible for the whole journey. Only one contract is made out with the carrier. The carrier would then employ sub-carriers (known as actual carriers) for each leg of the journey.

Advantages are the simplification of paperwork, and possibly a lower cost. The carrier is responsible for the transport process from start to finish. Disadvantages are that the exporter does not have as much control over the modes of transport employed and the selection of sub-carriers. The freight will also typically be unloaded and reloaded several times during the transport process.

Key term

Intermodal transport: the delivery of cargo using two or more modes of transport.

Multimodal transport: involves two or more modes of transport, but the exporter deals with a single carrier who is responsible for the whole journey.

Tip

Make sure you can identify the main differences between intermodal transport and multimodal transport. You should be able to explain two or three advantages of each system.

Key term

Consignment: an amount of goods that are being transported.

Import licence: a permit from a government body giving permission for goods to be imported into a country.

Now try these

1. Would you recommend intermodal or multimodal transport in each of the following contexts? Explain your answers.
   (a) The exporter does not want to handle the complexity of dealing with several modes of transport and several transport companies.
   (b) The exporter wants to keep a **consignment** of goods together in a single container, and is happy to do the logistics work involved in managing the transport chain.
   (c) The exporter is looking for a transport system that will minimise handling and splitting up of freight.
   (d) The exporter wants to deal with one carrier rather than many.
2. What mode of transport would you use in the following examples? Explain the main reasons for your choice.
   (a) The exporter wants to export expensive jewellery from Georgetown in Guyana to the United States, dealing with customers in several major cities in the United States.
   (b) A Jamaican exporter wants to export large volumes of cement and other building materials to Trinidad and Barbados.
   (c) Esso wants to transport large quantities of oil from its oilfields in Guyana to neighbouring Suriname.
3. **Business in action**: Create a poster to illustrate eight goods that are exported from your country, and the modes of transport that are typically used for each export. The poster should show two benefits of using your chosen modes for each export.

7.4

Interpret information on transport documents

Transport documents are required for the transport of goods. The most obvious of these is a delivery note that are packed with the goods. The delivery note serves as proof that the goods have been delivered.

When goods are sent by air or sea, there are a number of documents that are also used, as outlined below.

Import licence

An **import licence** is a permit from a government body giving permission for goods to be imported into a country. For example, in

the United States, the Customs and Border Protection agency grants licences that state how many and what type of goods can be imported within a set time (usually one year).

The reasons for granting import licences are to:

- control the import of certain items (e.g. firearms or animals) and certain substances (e.g. specific pharmaceutical products)
- restrict the outflow of foreign currency
- protect home industries from foreign imports.

An import licence will look like the following.

Licence to import goods

2019/3428

In line with the Import Control Regulations 2006, a licence is hereby granted to:

Letitia Lotions PLC
Box 204
Port of Spain

To import into Trinidad and Tobago during the year 2019 the following goods:

Tariff code: 38
Description of goods: Barbados Cherry Infusion
Country of origin: Barbados
Value: $20 000
Goods: 2 000 sachets
Port: Port of Spain

Signature: R. Singh
(Authorised Officer)

Date: 1 January 2019

The licence above shows that a cosmetics company in Trinidad and Tobago (Letitia Lotions) has acquired an import licence to import sachets of Barbados Cherry Infusion in 2019. It has a permit to import 2 000 sachets valued at $20 000.

Bill of lading

A **bill of lading** is a document that needs to be signed by a carrier to form a receipt for the goods it will be carrying. The bill is made out by the business that is consigning (sending) the goods. It will set out where the goods are to be delivered, and will list the goods and the quantities of each.

Key term

Bill of lading: a document that needs to be signed by a carrier to form a receipt for the goods it will be carrying.

Key term

Consignor: business that is receiving the goods.

Consignee: business that is sending the goods.

HTS code: a Harmonised Tariff System code; a specific code to identify categories of products, which makes it easier for customs departments to identify goods being carried.

Carrier: the business that actually transports the freight, such as a particular shipping line or an airline.

Shipper: a person or business that specialises in shipping freight. A shipper is typically an intermediary between a consignor and a consignee.

Air waybill: the air-transport equivalent of a bill of lading.

The bill of lading serves three main purposes:

- as a receipt for the goods
- as a document (or deed) of title – it shows who owns the goods
- as evidence of a contract being made to transport the goods.

A bill of lading will look like the following.

Bill of lading

Bill of lading number: _____ Carrier: _____

Shipper/Consignor: _____ Date: _____

Consignee: _____

Item code (HTS): _____

Details: _____

Quantity: _____ Weight: _____

Terms: _____ Total: _____

Prepaid: _____

Collect: _____

Carrier: _____ Shipper: _____

Pick up date: _____ Pick up date: _____

Signature: _____ Signature: _____

Received in apparent good order

Received by: _____ Signature: _____

Air waybill

An **air waybill** is the air-transport equivalent of a bill of lading.

An air waybill serves two main purposes:

- as a receipt issued by an airline for goods that it will carry to a particular destination
- as evidence of the contract of carriage between the shipper and the carrier, i.e. whoever is sending the goods and the airline.

An air waybill will accompany the goods being carried by air, and will set out in detail what goods are being carried, including the amount and value of the goods (for customs purposes so the correct taxes can be levied). Several copies of the air waybill will be made out for the records of the consignor, the consignee, the shipper and the airline, as well as customs and excise.

An air waybill is not a document of title. Instead, it serves as evidence of the contract to ship the goods (but the contract itself will be set out in a separate document).

Each air waybill has a unique 11-digit number, which makes it possible to make bookings and check the current status of the freight (e.g. where it is at a particular moment in time). Today, air waybills can be filled in electronically using a computerised system, and these are referred to as e-air waybills.

7.5

Explain the role of transport in marketing

Place is a key element of the marketing mix (see page 191). Transport and logistics are required to get a product from one place to another, and to get the end product to the customers. A marketing plan therefore needs to identify what modes of transport will be best, and how goods will be stored.

For example, if fruit is to be kept fresh, then a refrigerated warehouse may be needed to store fruit from farms before it is packed and supplied to retailers. Choosing the best location for the storage facilities is key, as is choosing the best transport from farm to warehouse, and from warehouse to retailers. Storage location is vital in keeping distribution costs down. Inventory control is also important, and involves keeping detailed records of stock. The quicker that stock can be moved and replenished, the better.

Companies that engage in global marketing will need a global logistics strategy that sets out:

- how goods will reach overseas markets
- what goods will be supplied to overseas markets
- which markets will be accessed
- what modes of transport will be used
- who the carriers and shippers will be
- who will handle the paperwork, documents, insurance, etc.

A global logistics system will therefore be needed in order to access global markets.

The role of transport in marketing includes the following.

- Fast-track the sourcing of commodities: this ensures that the commodities required in the production process can be transported to the manufacturer/processor as rapidly as possible. Commodities are things that come out of the earth such as rice, vegetables, sugar, copper, tin and oil, etc., and they provide the raw materials for many products in the Caribbean. Caribbean commodity suppliers need to get their commodities to market speedily and efficiently.

Now try these

1. Briefly set out the main purpose of an import licence, a bill of lading, and an air waybill.
2. Identify five pieces of information that should be included on each of these documents.
3. Why do multiple copies need to be made of supply chain documents that are used in international trade?
4. **Business in action**: See if your teacher can acquire an actual bill of lading or air waybill. Highlight the key features shown on this document.

Key term

Fast-tracking: the process of reducing the number of operations that take place in a sequence and replacing some of them with activities that can be carried out at the same time in order to finish a job faster.

Fast-tracking involves finishing a job earlier than normal because the sequence of operations required to produce goods is simplified and involves fewer relationships. For example, transporting bananas and other fruit in refrigerated containers enables them to be fast-tracked from the grower in the Windward Islands to the consumer in the United States, Canada, the United Kingdom and other parts of the Caribbean.

- Ensure security of supply: manufacturers and processors cannot afford to wait for deliveries of raw materials and components. Any production time lost because of transport problems with these inputs will cost the business significant sums of money. An organised transport system creates predictability in the supply chain, and will get goods to the right place at the right time.
- Reduce costs: when transport is organised efficiently, costs of distribution are minimised, enabling businesses to be competitive. Transport is one of the major costs involved in most goods.

Importance of transport in domestic, regional and foreign trade

In the context of the Caribbean, we can regard domestic trade as taking place within a country, such as within Anguilla. Regional trade takes place within the CARICOM area, for example between Anguilla and Trinidad. Foreign trade involves the export (and import) of goods to other countries, such as the United States, China and the United Kingdom.

Most regional trade in the Caribbean partly relies on road transportation, but road quality can sometimes impact on the speed of delivery

In the Caribbean, the main types of transport used for domestic trade are lorries, vans and other vehicles. The key advantages here are the speed and flexibility of delivery, as well as being able to deliver direct to the door. Road transport can carry small or large loads. While major highways benefit from good levels of maintenance, smaller roads tend to be neglected, particularly in rural areas, and this has an impact on the supply chain for agricultural products. Jamaica currently has a road masterplan to improve road infrastructure. Key issues to be addressed include severe traffic congestion at busy times in Kingston and urban areas.

As most Caribbean countries are relatively small, there is little point in taking goods by air unless they are very important (such as taking medical supplies to hospital by helicopter), or they need to reach mountainous and inaccessible locations. Heavy goods can be transported by sea, such as limestone that is quarried in Jamaica on one part of the island and then shipped to another part for processing. Pipelines are used to transport bulk liquids, such as liquid natural gas from offshore platforms to onshore installations in Trinidad and Tobago.

Regional trade is based far more on intermodal transport, i.e. the use of several modes of transport such as road, sea and air. The main exports from Trinidad to Jamaica are mineral fuels, food, beverages and tobacco. The main exports from Jamaica to Trinidad are chemicals, food and beverages. The majority of these exports will be transported between the two countries by sea. Fuel is increasingly transported to the Caribbean through pipelines, for example oil tankers from countries such as Venezuela dock at offshore docking stations, then the fuel is piped from the tankers to the storage units.

Again, international (foreign) trade is usually based on intermodal transport, and sea transport is highly important for countries with larger populations and deep-water ports, such as Jamaica, Barbados and Trinidad. In recent years, Trinidad and Tobago's main exports have been petroleum products, including petroleum gas, ammonia and acrylic alcohol, which are suitable for transport in sea tankers. A key aspect of the Barbadian economy is tourism and the handling of cruise ships, therefore sea transport is a vital component of the trading network. Air transport is also a key part of global trade, including for the transport of tourists (passenger aircraft), as well as lighter valuable items such diamonds from Guyana.

7.6

Identify advantages and challenges of supply chain operations

High-quality supply chain management is very important, and results in:

- fast order processing – reducing the time from order to delivery
- accurate order processing – getting the right goods to the right place
- lower costs of transport and warehousing
- better management of stock and inventory
- better communication with customers
- higher revenues and profits for businesses.

Advantages of effective supply chain operations

- People are able to enjoy a better quality of life. For example, Barbados has one of the most efficient transport and logistics hubs in the Caribbean, and the highest living standards. Barbados is able to deliver better products more speedily than some other Caribbean economies.
- An efficient supply chain creates wealth. For example, a good supply chain involves better port facilities, better airports that are able to handle short- and long-haul aircraft, better integration of the various modes of transport, more effective use of IT systems to

Now try these

1. Why is road transport the main form of domestic transport used within most Caribbean countries?
2. What problems are there for effective road transport in a Caribbean country?
3. How might the use of containers help to make regional transport more effective?
4. **Business in action**: Which country is the main trade partner for your country? Identify the major exports sent to this partner, as well as the main imports received from them. What are the main modes of transport for the exports and imports that you have identified?

manage complex logistics, and so on. Caribbean nations that have invested most heavily in building infrastructure to integrate the various modes of transport are best-placed to create wealth for their citizens.

- Supply chain management and logistics provides many new and innovative job opportunities, including those involved in:
  - planning logistics systems (logistics planners)
  - arranging for the shipment of goods (freight forwarders)
  - coordinating the landing and take-off of aircraft and ships (air traffic control, harbour management and piloting of ships)
  - selling goods through new online channels (telemarketing).

Challenges of developing effective supply chain operations

Globalisation: Global supply chain management (GSCM) is concerned with developing effective supply chains across the globe, bringing together networks of factories and the sourcing of materials on a global scale (**globalisation**). For example, Volkswagen assembly plants are highly efficient in Brazil and Mexico, where components and materials are shipped in when they are needed, and cars are shipped out to markets when they are needed. However, there are a number of challenges to developing effective **global supply chains** in the Caribbean, including poor transport infrastructure in some countries, a shortage of logistics professionals, and various technology-related challenges.

Counterfeiting: Global supply chains have contributed to an increase in **counterfeiting**, which refers to the false labelling of products, the false use of trademarks and trade names, and the use of inferior materials in goods that are passed off as the real thing. Counterfeiting can take place at various stages in the supply chain, for example by using inferior raw materials or by labelling products to give false descriptions etc. The results can be catastrophic. For example, in Panama in 2006, cough medicine imported from China that used unauthorised ingredients led to 78 deaths. Customers and genuine manufacturers lose out when counterfeits enter the supply chain, because sellers lose sales and reputation if their trademark is copied onto an inferior product.

Product complexity: The greater the product complexity, the greater the chance of issues in the supply chain. This is because there is a greater chance that one or more parts will not be available when they should be. IT systems can help to create logistics systems to deal with product complexity.

Key term

Globalisation: the manufacture and distribution of global products by very large companies that link their supply chains across many countries.

Global supply chains: the means to deliver standard, internationally branded goods and services from suppliers to end consumers across the globe, using integrated manufacturing, transport and distribution systems.

Counterfeiting: to imitate something that is valuable (e.g. a branded product) with the aim of carrying out fraud.

Today, many products have shorter life-spans than in the past, which leads to rapid product **obsolescence**. For example, many cellphone companies update their products each year. As new generations of products become desirable, the old products fall out of favour. However, the new products may require different manufacturing techniques, and as a result some elements of the supply chain may no longer be required, and new supply chains may have to be developed.

Key term

Obsolescence: being in the process of passing out of usefulness.

Regulatory complexity: Supply chain management is very complicated, and the number of regulations involved in the shipping of goods makes the whole process even more complex. Regulations are rules created by official bodies (often government departments) regarding such aspects as when vessels are allowed to enter ports, when loading and unloading can take place, what documents need to be completed before delivery and during delivery, etc. Customs officials may also want to inspect documents to check that they are accurate. The more complex the route that the freight takes, the more official paperwork and checking that needs to take place.

Management blunders: The complexity of supply chains can lead to management blunders such as:

- the over-handling of freight, so that it needs to be loaded and unloaded too often and in quantities that are too small
- not having enough information about customer requirements, e.g. when and where they want a delivery
- holding too much inventory in stock, where it can get damaged or become obsolescent
- using unsuitable IT systems, or unsuitably trained staff.

Changing market conditions: It is essential for sales and marketing departments to develop accurate forecasts of the demand for products. When they fail to recognise changing market conditions, such as a fall in demand, then suddenly there will be a glut of products in the supply chain blocking up storage facilities. Similarly, when demand rises, operational plans need to be put in place to increase supply.

Natural disasters: Natural disasters are a common cause of supply chain disruption, particularly with hurricanes in parts of the Caribbean. The nature of hurricanes means they are unpredictable, although weather forecasting projections can calculate the likelihood and impact of hurricanes.

Now try these

1. How might people in your country benefit from having efficient supply chains for products and services?
2. What factors in a country are most likely to lead to supply chain problems and disruptions?
3. **Business in action**: Study the local newspaper to find stories relating to shortages or over-supply of particular products. What seems to be the cause of these issues? How would it be possible to adjust the supply chain for the products identified to ensure a smoother flow of products?

Political instability: Political instability can also be a challenge for supply chain networks. Countries where there are more peaceful and well-structured political institutions will be looked on more favourably as hubs for supply chain activities than areas of political instability such as Haiti. Political stability creates more predictable business conditions, such as fewer strikes, more stable prices and less corruption.

7.7

Explain the impact of logistics and supply chain operations on the competitiveness of business

Efficient logistics play a key role in making a business competitive. Efficiencies in the supply chain reduce costs of production and distribution for a manufacturing company, and reduce costs of distribution and supply for wholesalers, retailers, and service businesses.

Supplying goods involves many costs:

Logistics is all about reducing these costs in order to make business more efficient. The business that can reduce these costs will be able to undercut rivals and make larger profits.

Competitive advantage

Competitive advantage is what makes a business superior to its rivals. This can be achieved through high quality or low cost: either supplying superior goods and services, or supplying cheaper goods and services.

Efficient logistics improves the chance of being competitive. A company that wants to be a high-quality provider will supply goods in perfect condition, and deliver to customers on time. Alternatively, a company that wants to be a low-cost provider will offer goods to customers at a low cost partly because the supply chain is so efficient that unnecessary costs have been eliminated.

Comparative cost advantage of outsourcing

Outsourcing involves giving responsibility for carrying out a process to people outside of the organisation. Businesses outsource many operations including the transport of goods, storage of goods, safe delivery of goods, and so on.

The business that outsources its activities is the "first party". The end user of the service is the "second party". The business that does the outsourced operations, such as transporting the goods, is the "third party". For example, Sea Island Specialists in the Caribbean (first party) sells 100 bales of cotton to Cotton Importers in France (second party). The logistics work, transport and delivery are carried out by a company called International Global Distributors operating out of the United States (third party).

The cost of hiring an outsourcing firm is often lower than running those services yourself, because:

- the external agency has the expertise and tools to get the job done, as it is a specialist in this particular area
- the external agency has a staff that is dedicated to this type of work
- the external agency will have an existing supply process focused on the task it is employed to complete.

The complex modern world of global distribution has given rise to another group of businesses, referred to as **fourth-party logistics providers**. These providers manage most of the supply chain for manufacturers and other outsourcing companies, such as sorting out transport requirements, insurance, delivery, customs clearance, etc. This enables manufacturers to concentrate on what they do best, i.e. making goods. For example, Sea Island Specialists could employ International Logistics (a fourth-party logistics provider) to handle significant parts of its logistics work.

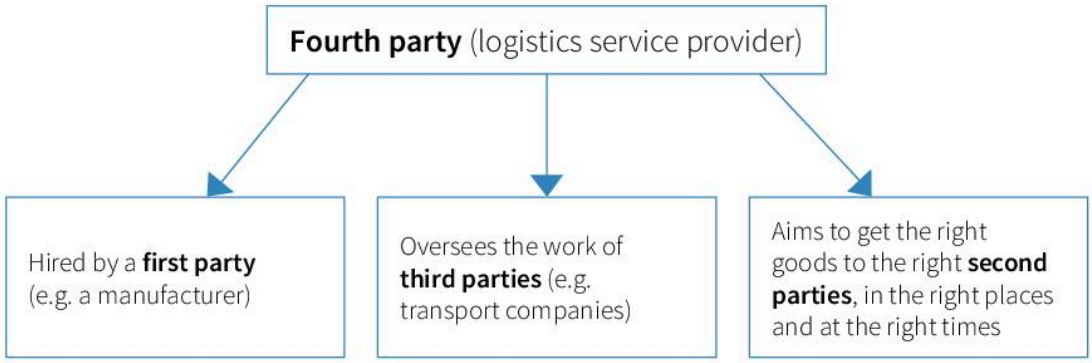
A key strength that the "fourth party" will have is an IT system staffed by experienced operators.

Key term

Competitive advantage: advantages enabling some regions or industries to grow rapidly at the expense of other regions or industries that have fewer resource advantages. In a business context, this means possessing advantages over rival businesses.

Outsourcing: hiring a business outside a company to carry out services or produce goods on behalf of the company.

Fourth-party logistics provider: a business whose function is not just to move products but to provide supply chain solutions for businesses seeking to distribute goods.



Now try these

1. Choose the three aspects of logistics that you think are the most important in giving a business a competitive advantage. Explain why each of these advantages is so important to the business.
2. Ramchand Soap Industries produces scented soaps in Trinidad, which it exports mainly to the United States. From here, they are bought in bulk by a giant retail chain, Soft Soap, as well as a range of independent stores along the east coast of the United States. The soap is transported mainly by sea (by International Shipping Line) from Port of Spain to ports in the United States, and then by road vehicles (owned by Road Solutions). Identify the first, second and third parties involved in this distribution chain. Why might Ramchand Soap Industries decide to employ a fourth party, and what are the benefits?
3. **Business in action**: Identify an agricultural product grown in your country, and where some of the output is exported. Who are the first, second and third parties involved in this industry? Is the size of this industry and the complexity of the distribution chain sufficient to warrant the employment of fourth parties?

Key term

Distribution: all of the processes involved in getting materials, partly finished goods and finished goods to the end consumer, and then arranging for payment to travel in the opposite direction.

7.8

Identify the problems likely to be encountered in distribution

Distribution refers to all of the processes involved in getting materials, partly finished goods and finished goods to the end consumer, and then arranging for payment to travel in the opposite direction. A key problem of distribution is whether suitable airport, harbour and docking facilities are available for the efficient distribution of goods.

In Barbados, ports are equipped to distribute vast quantities of goods. As there are lots of different types of ships docking at ports each week,

it is relatively easy to book suitable cargo space through a freight forwarding agent.

However, the port facilities enjoyed by Barbados tend to be the exception in the Caribbean (although Trinidad, Jamaica, the Bahamas and Guyana all have extensive port facilities). Where countries do not have such large port facilities, it is much more difficult to distribute goods. This is particularly true of bulk cargo, which has to be carried on smaller ships and in smaller shipments. Ships visiting ports on other islands are far less frequent.

Many Caribbean countries have good airports, and even airports in much smaller geographical areas (such as St Martin) are well-equipped to handle international tourism. However, air freight facilities are much more restricted, as illustrated by the fact that the whole of the Latin America/Caribbean region only handled 4 million tonnes of freight in 2018 (compared with 33 million tonnes in North America).

Other problems that occur in the distribution of goods include the following.

- Delayed shipment: this arises for many different reasons, such as materials and parts not being ready, the breakdown of lorries and poor weather conditions. These all result in late delivery to customers, who may then become frustrated and look for new suppliers. Even when ships have arrived at port, they may not be unloaded until dock space has been found.
- Spoilage: this refers to goods being spoiled in transport, and it is particularly a problem with foodstuffs. Where handling facilities are poor or there is insufficient packaging, goods can be damaged.
- Misdirection of goods: if goods are poorly labelled or the paperwork is inadequate, they can be sent to the wrong location, which in international trade may be thousands of miles away from where was intended.
- Inadequate warehousing facilities: good warehousing involves having sufficient space, good handling equipment, a clear organisation of goods and the right temperature (for frozen foods etc.). Where warehousing is poor, goods can be damaged.
- Lack of proper **security measures**: proper security involves having gated or fenced port and airport freight handling facilities, security personnel working with good security cameras, bays that are locked overnight, and safe places for lorries to park. The absence of any of these can result in distribution issues around goods going missing.
- Industrial unrest: in 2011, security workers responsible for monitoring and screening cargo went on strike at Port Bustamante

Key term

Security measures: measures taken to protect cargo in transit, as well as to protect the infrastructure of ports (for example through the use of security fences, guards patrolling port facilities and the inspection of cargo).

Now try these

1. How are some Caribbean countries disadvantaged in organising fast-moving and efficient supply chains when compared with Barbados, Trinidad and Jamaica?
2. What do you think are the biggest threats to the supply chain of bananas grown in the Windward Islands?
3. What factors are likely to lead to delayed shipment, and how might these delays have knock-on effects for the supply chain?
4. **Business in action**: Consider what the main challenges to distribution are in your country. Make two lists: one of strengths in terms of making distribution smooth and efficient, and one of weaknesses that lead to inefficiency and disruption in distribution.

in Jamaica to support a colleague who had been dismissed. This led to cargo being stopped from moving in to and out of the port. Industrial action that affects any part of the supply chain has the potential to bring the whole supply chain to a halt.

- Ineffective communication: there are many communication issues that can lead to poor distribution, including paperwork being lost, being filled in inaccurately, or being sent to the wrong client. Even with advanced IT systems supporting ordering, delivery, billing and other aspects of distribution, it is not uncommon for errors to occur. For example, if the purchasing department adds in an extra digit by mistake, 1 000 solar panels could be ordered instead of the required 100. Or instead of goods being delivered to Bridgetown in Barbados, they are shipped to Bridgetown, Ohio in the United States. Communication failure is also a major issue in giving instructions to commercial drivers, for example about where the goods need to be delivered to.

7.9

Outline measures to mitigate problems in distribution

There are a number of measures that can be taken to improve distribution. The main ones are outlined below.

Government intervention

Caribbean governments know that effective supply chains help to create wealth and job opportunities in the domestic economy. This is reflected in government plans, such as the Jamaican government's Global Logistics Hub Initiative, which aims to make Jamaica the fourth-largest logistics hub in the world. Plans include building a new deep-water port at Cow Bay, building a new cargo airport and developing technology parks.

Communication networks, including use of the Internet

Modern logistics systems are highly dependent on IT links, including online programmes for managing paperwork, coordinating transport links, managing payment systems, purchasing insurance and so on. IT communications are the single most important factor leading to improvements in global logistics today.

Insurance

Wise distributors take out adequate insurance for their stock while it is being stored and moved along the supply chain. The biggest threats to warehouses and stock come from fire, flooding, theft and product recall. For example, in September 2016, clothing retailer Gap had a fire at its New York distribution centre, causing damage to most of the stock. Without insurance, the company would have lost a huge amount of money.

Insurance is a key way of supporting the supply chain so that compensation is paid for valid losses, such as stock being held up when ships cannot sail in bad weather, or lorries breaking down on the road.

Selecting the most appropriate channel of distribution based on the product

Sound distribution involves constantly evaluating the modes of transport being used, the routes being taken and the channels of distribution. For example, a business may decide to remove the middleman from the supply chain and sell directly to customers through online sales.

Using handling services with a good reputation

There are a range of freight handling services whose express purpose is to support good supply chain links. These include global logistics providers (see page 253), freight forwarding agents, domestic transport firms (such as Masters Logistics Trucking & Delivery in Jamaica), and a range of established import and export agents. By using handling services with good reputations, companies know that they are in safe hands. A global logistics provider will provide services like Ship Me, mail pack and GPS to companies needing to ship goods.

Careful labelling and documentation

Clear labelling is required to ensure that products are sent to the correct location. Goods need to be accompanied by accurate documents to show who the owner of the goods is, who the shipper will be, etc. Today, much of this documentation is produced online, and it needs to be error free in order to pass the requirements of officials in various countries, including customs. Appropriate documents need to be sent with the goods and will need to be supplied prior to the arrival of the goods, such as bills of lading, certificates of origin, etc.

Avoiding large stocks

Stock can be handled more efficiently when stockyards and stockpiles are neater. A key aspect of this is reducing stock levels to the minimum quantities required to deliver materials, components and finished goods just in time for their use. This also avoids extra costs for the business in having too much stock to store.

Increasing security

The proper security of warehouse and storage facilities helps to prevent and reduce pilfering and damage to company property. Security cameras can record all personnel and vehicles moving in and out of a facility, and can also record the timing of such events. Visible security cameras help to deter thieves and vandals, and security footage can potentially be used to help prosecute criminals.

Now try these

1. Imagine that you have been employed by a local bakery as a logistics consultant to identify three ways in which the business can reduce problems associated with the distribution of its products. Sacks of flour and sugar are transported to the retailer by independent vans that do not work for either the wholesaler or the bakery. Raw materials are going missing during the distribution process. What three suggestions would you make to reduce these issues?
2. A food processing company traditionally holds large stocks. What benefits might there be to reducing the stocks of food that are waiting to be processed?
3. **Business in action**: Study the website of a large commercial insurance company that operates in your country. Identify what business insurances it offers that would be relevant to a company seeking to create a more effective distribution of its goods and services.

7.10

Outline the impact of information technology on logistics and supply chain operations

GPS is widely used today to plan and direct journeys, helping to reduce journey times

Modern logistics and supply chain management are very complex, and distribution channels can be very fragmented. There are therefore real benefits associated with the use of IT in supply chain operations.

IT is useful for the following elements of supply chain operations:

- handling large volumes of data
- sorting out data into meaningful patterns
- simplifying complex supply chain and logistics problems
- providing solutions for effective distribution
- reducing the cost of logistics
- coming up with the best logistics solutions
- supporting logistics hubs.

There are many different forms of technology that contribute to effective supply chain operations, as outlined below.

Global Positioning System (GPS)

Key term

Global Positioning System (GPS): allows people to pinpoint their exact position using satellites that orbit the Earth.

The **Global Positioning System (GPS)** allows people to pinpoint their exact position using satellites that orbit the Earth. It is owned by the United States Department of Defense, but is used commercially for logistics and supply chain management.

On the ground, drivers can use individual GPS receivers to see their position on a map. While moving, the GPS computer in a vehicle shows the position of the vehicle, and how the position is changing on a map. The driver is able to plan journeys by inputting a starting point and an end point. The GPS will then map out the best journey and route to take. The GPS receiver will continually give feedback on the distance travelled and the distance to the destination, as well as information about traffic hold ups so that the driver is able to avoid these.

GPS is a great example of how IT enhances logistics, by simplifying journeys and by cutting journey times and fuel costs. GPS is so widely used that it has become highly affordable (as a result of mass production).

Benefits of GPS	Drawbacks of GPS
• System is relatively cheap to purchase • Cuts journey times, enabling quicker and cheaper delivery • Enables drivers to plan the quickest route by themselves, as GPS is a simple device to use • Does away with the need to use more complex maps	• Occasionally, GPS maps may not have been updated, sending drivers down inappropriate routes • Drivers can momentarily lose focus on their driving as they look down at the GPS screen • There is a potential security risk if a driver leaves the GPS device in a visible position where it may be stolen

Geographic information system (GIS)

A **geographic information system** is a computer-based system designed to capture, store, manipulate, analyse, manage and present all types of geographical data, often in the form of a map. A company will use GIS to map geographical data to improve the company's logistics information.

Having GIS is particularly important in the world of e-tailing, where an e-tailer may need to get orders delivered from the warehouse to thousands of separate locations. A sophisticated logistics GIS will contain the details of customers, where they live, the best routes to reach them and how to contact them. A successful GIS will reduce the lead time from when customers make an order to when they receive their goods.

Portnet

Portnet is a system that uses advanced IT to support shipping and port authorities via the Internet. In 2018, it handled 200 million transactions during the year, providing information about ports, shipping and logistics processes required to move goods by sea. The system:

- enables importers and exporters to buy space on cargo ships
- enables shipping lines to advertise and sell cargo space
- provides information about the movement of goods
- provides information about the location and availability of containers, so they can be hired or used for transporting goods around the globe
- provides a single portal bringing together shipping lines, freight hauliers, freight forwarders and government officials.

Telemarketing and e-commerce

Telemarketing refers to selling goods over the telephone. The telemarketer will use a computer to record details about customers, such as where they live, their purchasing history, etc. The telemarketer will then seek to make an offer and to "win" the customer. Telemarketing focuses on the essential details that are thought to be helpful in making sales.

E-commerce refers to buying and selling goods electronically using the Internet. Potential customers browse websites with the view of making a purchase. The websites are designed to help the customer to move quickly to goods that interest them, to enter these into a shopping cart and then to make a payment. E-commerce makes it possible for shoppers to shop at a time which is convenient to them.

Global logistics providers such as FedEx, DHL and Amazon Logistics

A **global logistics provider** is a large, multinational company set up for the purpose of managing distribution networks across the globe.

Key term

Geographic information system: a computer-based system designed to capture, store, manipulate, analyse, manage and present all types of geographical data, often in the form of a map.

Portnet: a system that uses advanced IT to support shipping and port authorities via the Internet.

Telemarketing: selling goods over the telephone.

Global logistics provider: a large, multinational company set up for the purpose of managing distribution networks across the globe.

For example, FedEx provides an express delivery service, carrying packages and deliveries around the globe with a guaranteed "rapid" delivery time. Accessing the FedEx site, a customer is able to book a delivery slot, find out how much this will cost, what the delivery time will be, and whether there are any additional requirements (such as for the international shipment of goods).

DHL provides a similar global logistics system for companies. As well as providing delivery of freight, the company works closely with firms in specific industries (such as the automotive, engineering and pharmaceutical industries) to provide complex solutions to the problems of organising global supply chains. Similar to FedEx, DHL offers a detailed online website that enables the buying and arrangement of delivery transport.

Amazon Logistics is a recent entrant to the global logistics market. Amazon is a major e-tailer that has built up an effective delivery system, and has now decided to move into the international transportation of goods for other companies. However, whereas FedEx and DHL deliver door to door, Amazon will currently only ship to one of its own facilities (warehouses), from where goods can then be picked up. As Amazon is a late entrant to the logistics market, it is using promotional pricing (see page 194) and has a key selling point of very low rates and speedy delivery.

Logistics hubs

A **logistics hub** is a location that acts as a centre for a range of activities relating to transport, logistics and goods distribution, both for national and international purposes. There are various operators (such as shipping lines, road hauliers, shippers, etc.) and various facilities for storing goods in bulk. A logistics hub will be multimodal, bringing several forms of transport together.

The Jamaican government is currently behind an initiative (the Global Logistics Hub Initiative) that is seeking to develop the country as a global logistics hub. Jamaica is a central location in the Americas, and there is the opportunity to cluster logistics together in one island. Among other aspects, this will require the following:

- the extensive use of digital technology to plan the design, production, packaging and distribution of goods and services
- building up Jamaica's facilities for the storage of natural resources, and for ship and aeroplane repair
- the development of services that support logistics, such as insurance.

Key term

Logistics hub: a location that acts as a centre for a range of activities relating to transport, logistics and goods distribution, both for national and international purposes.

A key part of Jamaica's drive to build a logistics hub is the development of **special economic zones (SEZs)** in the country. These focus on logistics-based activities such as warehousing; ship and aircraft maintenance and repair; the labelling, relabelling and repackaging of products; and the provision of port and airport facilities. The aim is to provide reasons for ships and aircraft to stop in Jamaica before travelling elsewhere.

Jamaica currently has two international airports. Sangster International Airport is one of the largest and busiest airports in the Caribbean, while the Norman Manley International Airport serves Kingston. Jamaica also has one major port at Kingston, five medium-sized ports and some smaller ports. The government has proposed the creation of 16 SEZs in Jamaica, to encompass the Kingston container terminal, Norman Manley International Airport and a number of other key areas.

Key term

Special economic zone (SEZ): a designated area in which business and trade laws are different from the rest of the country. The aim of creating such a zone will be to increase trade, investment and jobs.

Now try these

1. What is a logistics hub? Is there any scope for developing an international logistics hub in your country? Where would this be developed? If it would not be possible to develop, explain the reasons why.
2. How would Portnet help companies shipping goods to your country?
3. **Business in action**: Does a friend or relative have a GPS system in their car, taxi or van? If so, ask him or her to explain how it works and when it is used.

Develop your exam skills

PAPER 1

1. Which component of logistics is concerned with the selection of suppliers and arranging the delivery of raw materials?
   - A Disposal logistics
   - B Distribution logistics
   - C Procurement logistics
   - D Production logistics

2. A just-in-time approach to manufacturing and distribution involves:
   - A Keeping excess supplies in order to meet demand
   - B Ordering new supplies and parts to arrive when required
   - C Waiting to receive purchase orders before ordering supplies and parts
   - D Making goods faster than they can be consumed

3. A discount store:
   - A Sells high-quality goods at high prices
   - B Offers a range of luxury items in a number of departments
   - C Sells low-cost items at reduced prices
   - D Provides cheap goods which are sold online

4. Which of the following modes of transport is best suited for carrying light, small and valuable items quickly over long distances?
   - A Pipeline
   - B Sea transport
   - C Air transport
   - D Road transport

5. Which of the following modes of transport would be most suitable for carrying a consignment of natural gas from an offshore platform to the mainland?
   - A Pipeline
   - B Container ship
   - C Rail
   - D Digital delivery

6. Which of the following is least likely to appear on a bill of lading?
   - A A list of the goods in the consignment
   - B HTS codes of the products being sent
   - C The name of the airline carrying the goods
   - D The destination port of the goods

7. An important reason for the requirement to fill in an import licence is to:
   - A Encourage the export of goods
   - B Prevent the import of dangerous and harmful products
   - C Keep a record of the types of goods imported into a country
   - D Stop the import of goods from competitor nations

8. A business is most likely to employ a fourth party logistics provider when:
   - A The supply chain and chain of distribution is simple
   - B The business has a lot of experience of the supply chain
   - C The supply chain involves many modes of transport and distribution channels
   - D The company only deals with sales in its domestic market

9. Which of the following aspects of a country is most likely to lead to distribution problems?
   - A Availability of a deep-water port
   - B Experience in dealing with containerisation
   - C Inefficient information technology systems
   - D Good industrial relations record

10. Which of the following is most likely to have negative consequences for the supply chain?
    - A Obsolescence of existing products
    - B Improved logistics
    - C Increased integration of transport links
    - D Falling costs of distribution

PAPER 2

1. (a) Define the term "supply chain operations" and give an example. **(2 marks)**
   (b) Outline the following challenges of supply chain operations:
   (i) Counterfeiting
   (ii) Globalisation **(4 marks)**

2. (a) Define the term "logistics". **(2 marks)**
   (b) Explain the role of retailers in distribution. **(2 marks)**
   (c) Differentiate between "forward flows" and "reverse flows", using examples. **(6 marks)**
   (d) Explain how logistics can improve competitiveness. **(3 marks)**

3. (a) Identify the mode of distribution which would be used to transport the following:
   (i) Donor organs
   (ii) Gas and water
   (iii) Video games
   (iv) Bulk grain (internationally) **(4 marks)**
   (b) State the measure which could be used to reduce the following problems of distribution:
   (i) Lack of adequate security measures
   (ii) Delayed shipment
   (iii) Misdirection of goods **(3 marks)**
   (c) Explain two (2) benefits of using a global positioning system (GPS). **(6 marks)**
   (d) Identify two (2) ways in which efficient transport benefits a business. **(3 marks)**

4. (a) (i) Identify three (3) links in the chain of distribution. **(3 marks)**
   (ii) Outline two (2) of the links identified in (a) (i). **(4 marks)**
   (b) Differentiate between a "bill of lading" and an "airway bill". **(4 marks)**
   (c) Discuss the following problems encountered in distribution:
   (i) Inadequate warehousing facilities
   (ii) Delayed shipment
   (iii) Industrial unrest **(9 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

8 Business finance

Setting the scene

The financial system in Trinidad and Tobago

Trinidad and Tobago has one of the biggest financial sectors in the Caribbean, and the Central Bank of Trinidad and Tobago has overall responsibility for maintaining confidence in the financial system. One of its key duties is to give licences to commercial banks to operate in Trinidad and Tobago. It also has overall responsibility for creating confidence in the financial system of the country, as well as carrying out major functions such as supervising the issuing of notes and coins.

Commercial banks such as Republic Bank and Scotiabank take deposits from customers, offer them loans, and make transactions on their behalf in order to make a profit for themselves. Commercial banks are the most important element of the financial sector in terms of their overall assets (the value of what they own, in the form of customer deposits as well as the physical buildings from which they operate). All commercial banks have to have deposits with the Central Bank, and the chair of the Central Bank will meet with heads of the commercial banks to discuss their lending policies.

Trinidad and Tobago offers a "light touch" when taxing profits, therefore many international financial institutions have offices registered in the country. In order to earn a licence to operate, these companies need to demonstrate that they are not engaging in illegal activities such as money laundering.

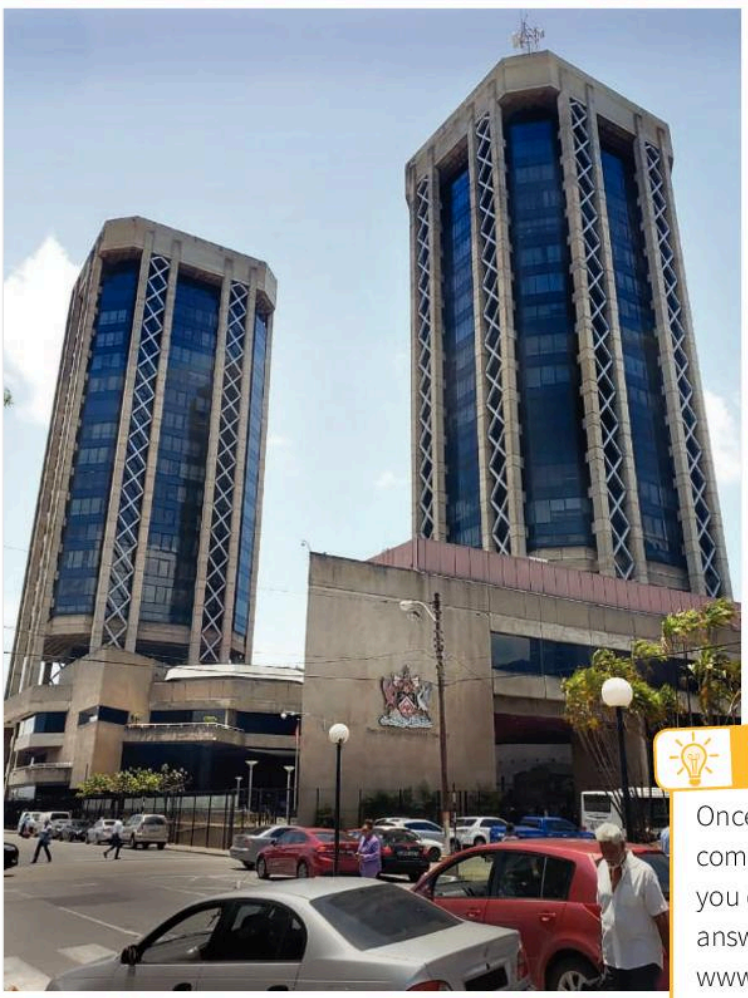
Other major types of financial institutions operating from Trinidad and Tobago are insurance companies, occupational pension funds and credit unions. These unions are not-for-profit organisations handling relatively small deposits and savings, and making relatively small loans to their customers. There are nearly 150 of these, many of which focus on members of a specific occupation, such as teachers or police officers.

1. What do you think is meant by the term "financial institution"?
2. Why do you think there are so many financial institutions in Trinidad?
3. Identify three commercial banks that operate in your country. What are the main functions of commercial banks?
4. From where does a pension fund get its funds, and what does it do with the funds?
5. How might one of the financial institutions outlined in the case study above be of use to you?

Objectives

After reading this chapter, you should be able to:

1. Identify various financial institutions 260
2. Describe the functions and services offered by financial institutions 263
3. Describe the role and functions of financial regulatory bodies 266
4. Describe the relationship between financial institutions and regulatory bodies 268
5. Outline ways used by individuals to manage personal income 270
6. Differentiate between savings and investments 273
7. Explain the concepts of short-term and long-term financing 277
8. Identify personal sources of capital for setting up a business 281
9. Identify the purposes of basic financial records for sole traders 284



Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

8.1

Identify various financial institutions

Businesses need funds to set up and operate. A business may acquire funds from the owners (self-financing), or it may borrow funds and credit from organisations known as financial institutions. There are many different financial institutions that populate the financial sector of the economy, including banks and insurance companies. The main financial institutions are outlined below.

Central banks

Each country has a central bank whose job it is to oversee the running of the financial system, to control inflation and to licence other banks to operate in the country. These central banks are established by the government, and are not privately owned, do not allow deposits from the public and do not have profit as an objective. Examples of central banks in the Caribbean are shown in the table below.

Country	Central bank	Currency
Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Vincent and the Grenadines	Eastern Caribbean Central Bank	Eastern Caribbean dollar
The Bahamas	Central Bank of the Bahamas	Bahamian dollar
Barbados	Central Bank of Barbados	Barbadian dollar
Cuba	Central Bank of Cuba	Cuban peso
Guyana	Bank of Guyana	Guyanese dollar
Haiti	Bank of the Republic of Haiti	Haitian gourde
Jamaica, St Lucia	Bank of Jamaica	Jamaican dollar
Trinidad and Tobago	Central Bank of Trinidad and Tobago	Trinidad and Tobago dollar

The main roles of the central bank include the following.

- Printing currency, notes and coins.
- Licencing other banks and financial institutions.
- Acting as the government's bank, holding government revenues and providing a payment system for government departments.
- Controlling the monetary system, determining how much money is in circulation (so there is enough currency for payments to be made, but not so much that prices start to rise).
- Establishing overall interest rates in a country.
- Acting as **lender of last resort** to other banks.
- Managing government monetary policy. The chair of the central bank will meet regularly with senior government ministers to discuss the state of the economy.

Key term

Lender of last resort: a financial institution (e.g. a central bank) that will provide liquidity (funds) to another financial institution as a last line of credit.

- Meeting with heads of financial institutions to discuss how they operate – for example, to find out if they are lending too much – and imposing limits or penalties.
- Helping the government to borrow money by issuing government bills and bonds (financial institutions are often happy to lend the government money because, in many countries, it is a very safe investment).

Commercial banks

A **commercial bank** is the term used to describe most of the larger banks that you will see in the Caribbean. They take deposits from households and businesses, make loans and provide other financial services. These banks are also referred to as retail banks because they deal directly (often face to face) with their customers, and they have lots of individual customers. Examples of commercial banks are: the National Commercial Bank of Anguilla, Antigua Commercial Bank, Republic Bank (Barbados), the National Bank of Dominica, the Bank of Nevis, and many others.

The main roles of commercial banks include the following:

- accepting deposits (for example from customers depositing their savings)
- lending money to businesses and individuals
- processing payments
- issuing bank drafts and checks
- offering safety deposit boxes for items and documents.

Key term

Commercial bank: a business that takes deposits from households and businesses, make loans, and provides other financial services.

Credit unions: not-for-profit organisations set up and owned by their members. They encourage members to save, and in return provide them with credit at relatively low rates of interest.

Non-bank financial institutions

There are a number of other financial institutions that are not classified as banks.

Credit unions: **Credit unions** are usually not-for-profit organisations set up and owned by their members, such as teachers. They encourage members to save, and in return provide them with credit at relatively low rates of interest. Examples of credit unions in Barbados include Barbados Public Workers' Co-operative Credit Union, Barbados Police Co-operative Credit Union, and Barbados Teachers' Co-operative Credit Union.

Insurance companies: Insurance companies are set up primarily to provide insurance to businesses and individuals (see Unit 8.7, page 277). They cover the risks of their customers and provide compensation where a loss is incurred, such as product liability, employer liability, fire and theft. Some companies will focus on particular insurance types such as life or motor insurance, but most large companies cover many types of insurance.

Key term

Building societies: organisations originally set up by their members to fund shared/cooperative house-building schemes and later to provide mortgages, but more recently to provide a range of additional financial services.

Micro-lending agencies: provide small loans and other banking services to unemployed or low-income individuals, who may not be able to get finance from banks.

Farmers in the Caribbean are helped by the government giving them low-interest loans and grants

Tip

It is worth knowing some key differences between a commercial bank and a credit union. Commercial banks tend to be bigger and are more likely to be part of an international organisation. Credit unions are not-for-profit financial co-operatives, whereas commercial banks are for-profit companies.

Building societies: **Building societies** are financial institutions owned by their members, and their primary purpose is to provide benefits for members. Traditionally, building societies were set up to provide a pool of funds to build houses for members. Today, building societies focus on savings, mortgage lending and financial services (such as insurance and banking). An example of a building society in Jamaica is the Victoria Mutual Building Society, which manages savings accounts for its members and offers mortgages.

Micro-lending agencies: **Micro-lending agencies** provide small loans and other banking services to unemployed or low-income individuals who may not be able to get finance from banks. They started to take off in the Caribbean in the 1970s, to provide finance to cottage industry businesses. Today, there are many agencies, such as the Barbados Youth Business Trust and the National Development Foundation of Dominica, which was set up to provide credit and training to owners of small enterprises.

Government agencies: The government also plays an important role in providing funding for businesses, including enterprises of all sizes. The Agricultural Development Bank in Trinidad and Tobago was set up by the government to provide low-interest loans and grants to farmers and the fishing industry. The Development Bank of St. Kitts and Nevis is a government-owned bank that focuses on providing "affordable financing" to businesses and households in St Kitts and Nevis. It also enables borrowers to consolidate debts (i.e. to make existing debt more manageable in terms of repayment schedules).

Government agencies also play an important part in other aspects of business, for example by providing insurance. For example, The Central Bank of Barbados set up the Export Credit Insurance Scheme to promote and support the growth of Barbados' manufactured exports. It provides insurance cover against losses arising from non-payment by overseas buyers for Barbadian manufactured goods. You will find similar agencies in most Caribbean countries.

Now try these

1. What do you see as being the three main functions of a central bank?
2. In what ways do central banks come into contact with commercial banks?
3. What is the main work of an insurance company and a building society? Who are the customers of these institutions?
4. **Business in action**: Identify a credit union that operates in your country. Who was it set up to help? What are the main activities of this credit union?

8.2

Describe the functions and services offered by financial institutions

Functions offered by financial institutions

The main function of a financial institution is to transfer funds from those who want to save money to those who want to borrow money. Banks pay a lower rate of interest to savers who deposit funds and charge a higher rate to borrowers, which enables them to cover costs (e.g. premises and staff costs), as well as to make a profit.

Loans/credit facilities: Many people and businesses need to borrow money, for example for expensive purchases such as a car. Businesses may borrow from banks when they want to grow. Lines of credit determine the maximum that a customer is allowed to borrow. Borrowing methods include the following:

- Loans: borrowing a fixed sum (e.g. $1 000) for a set period of time (e.g. one year). The business will need to pay back the sum borrowed plus the agreed rate of interest.
- Credit: banks offer customers a credit card, enabling them to buy goods and services on credit.
- Mortgages: banks lend to firms and individuals to buy office buildings and factories, as well as homes. The legal deeds of the property are kept by the bank until the mortgage has been repaid. Mortgages are usually for long periods of time, such as 25 years.

Savings and deposits: Banks offer a range of accounts where customers can keep their savings. Ordinary **deposit accounts** enable customers to deposit money that can be withdrawn at a later date. When withdrawals can be made from an account quickly, the bank will not pay a very high interest rate. In contrast, **savings accounts** offer a higher rate of interest and enable savers to build up their savings. Customers often have to give the bank notice if they are going to withdraw from a savings account. Long-term savings accounts offer the highest rate of interest, but often there is a penalty clause attached to them if customers seek to withdraw funds before an agreed date.

Making payments: Banks and other financial institutions also provide means of making payments, such as cheques and bank drafts. Banks can also make regular payments in the form of standing orders (set payments of regular sums) into a named account. Banks process payments through automatic electronic payments, as well as Internet banking.

Investments: Financial institutions can also provide means of investing. Advice is usually available, and the management of investments can be undertaken by banks on behalf of their customers. Some banks and other finance businesses will offer their own

Key term

Deposit account: any type of bank account where the holder of the account can deposit money in the bank.

Savings account: an account set up with a bank primarily for the purpose of saving money for the future. A savings account has a higher rate of interest than a checking account (a deposit account at a bank that allows deposits and withdrawals, also called a current account), and it is sometimes more difficult to take money out.

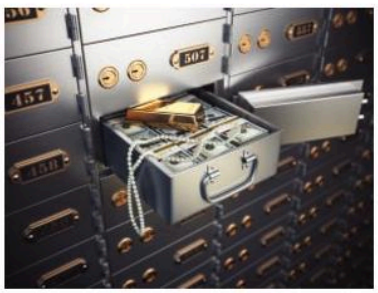
Tip

Make sure you can distinguish between the savers and borrowers of a bank. Savers put money into the bank, whereas borrowers take loans and other forms of borrowing out from the bank. Savers receive interest while borrowers pay interest.

Key term

Trust: an arrangement whereby a person or body is appointed to hold property or investments on behalf of one or more beneficiaries.

Trustee: a legal term for anyone who is responsible for investments or other assets on behalf of one or more beneficiaries.



Safe deposit boxes are a service offered by banks to help customers keep their valuables safe

investment schemes, while others will only manage investments by buying and selling assets in the schemes of specialist providers.

Services offered by financial institutions

There are some specific services that most financial institutions provide for their customers, as outlined below.

Night safe deposits: Businesses sometimes want somewhere safe to store their takings before they are banked the next day. Banks provide a key to a night safe pouch, which is then dropped into a secure night safe box. These are usually found next to a bank ATM immediately outside a bank.

Online banking: Online banking enables customers to manage their bank account via the Internet. They can log on securely using a password and access their banking records, including recent transactions (payments in and payments out) as well as statements going back a number of years. The account holder can also move money between various accounts. It is possible to update personal details as well as activate new cards, report lost or stolen cards and replace damaged cards.

Advisory services: Customers can get financial advice from their bank, such as how to apply for a mortgage, the details required in applying for a business loan, alternative ways of saving their money, etc. It is important for the account holder to first find out whether the service is free, or whether there will be a charge for it.

Credit and debit cards: Banks offer customers a credit card, which enables them to buy goods using the card and then pay for them later. Every month users receive a statement showing how much they owe, and if they pay the bill by a given date they will not have to pay interest. However, if they do not pay the bill in full, they are charged a high rate of interest. A debit card is a means of payment using funds in your own bank account, rather than through borrowing.

Trustee work: Banks and other financial institutions can be appointed to handle issues on behalf of a **trust's** beneficiaries. For example, a charity **trustee** may appoint a bank to act on its behalf in the management of investments, or a bank may act as a trustee for a deceased person, managing the financial assets in the will on behalf of future beneficiaries. Trustee work also includes managing real estate.

Deposit boxes: A safe deposit box is a locked container stored within a bank's vaults. The bank rents out these containers for customers to store valuable items such as jewellery, gold, money, etc. Depositors are able to open their safe deposit box with a key in the presence of a bank official.

ATM/ABM services: An automated teller machine (ATM) is a machine that enables customers of banks and other financial institutions to carry out transactions and banking operations such as:

- withdrawing funds
- checking their balance
- getting a mini statement of their account
- depositing funds
- paying cheques into their account.

The term "automated banking machine" (ABM) is another name for an ATM that is mainly used in Canada.

E-trade: The commercial banks make e-trade possible in a number of ways. E-trade involves buying and selling online. A key part of this is enabling electronic payments to be made for goods that are traded online, e.g. through a commercial website whereby customers will use their online bank accounts to make a payment to e-traders via their website. However, there are a number of other aspects of e-trade that are also enabled by banks. For example, many banks will buy and sell shares and government securities (bills and bonds) on behalf of their clients online. The customer simply accesses the relevant part of the bank's website to buy shares by electronic means with the bank making the trade on the customer's behalf. Foreign currency can also be bought and sold through a bank by purchasing and selling online.

Settlement services: Financial institutions provide settlement services between one customer and another (through their bank accounts), as well as between banks. For example, when Florence Robson wants to pay her electrician (Rohan Singh) $200 for electrical work, she can:

- give Rohan a cheque which Rohan deposits with his bank, or
- go into Rohan's bank and pay the money directly into his account (giving his bank account details), or
- pay the money into her own bank, filling in a slip with Rohan's bank details so that the funds can be transferred, or
- use online banking to make the transfer using an electronic form, or
- ring up her bank and give the details of the payment.

Just as settlement can be made between one bank customer and another, settlement can also be made between various banks in the Caribbean.

Remittance services: The term **remittance** is used widely in relation to people who are working abroad and sending part of their wages back to their home country. For example, a Trinidadian working as a lawyer in the United States might send some of their income back to Trinidad. This can be set up by telephone, mail or online. Remittance services have been an important feature of recent Caribbean history as a result of emigration to the United States, the United Kingdom and elsewhere since the 1950s.

Now try these

1. What is the main function of a bank? Give an example of a service or services associated with this function.
2. Give examples of services designed to keep depositors' money safe.
3. Explain three services that help bank account holders to make payments.
4. What is the difference between a remittance and a settlement service? Give an example.
5. **Business in action**: What banking services do your family and friends use most regularly? Are there any additional services that you think might help them?

Key term

Remittance: a sum of money sent by someone working abroad back to their home country.

Key term

Regulation: rules set in place to create fair play.

Inflation: a sustained increase in the prices of goods and services.

Licence: a permit from an authority to use or do something. In the case of banking licences, these permits allow financial institutions to carry out stipulated financial activities.

8.3

Describe the role and functions of financial regulatory bodies

It is essential that the financial system of a country is in safe hands. The processes of lending and borrowing need to be regulated so that the parties involved in a financial transaction deal with each other in a fair manner. **Regulation** involves creating rules of fair play. The credibility of a country as a member of the international community depends on having a sound regulatory system. The regulators are the organisations (and people who make up these organisations) which create the rules.

The rules need to be firm and fair in order to:

- protect the financial affairs of people and businesses in a country
- create a climate of honest financial dealing so the international financial community is willing to do business with that country.

Financial regulatory bodies are government organisations, some of which are explained below.

Financial regulatory body	Functions of the body
Central bank – the key manager of the financial system	• Oversees the printing of all the notes and coins for a specific country, and issues a sufficient quantity of money for stable transactions to take place. If too much money is created, prices start to rise and **inflation** occurs, which is bad for business. It is essential therefore for the central bank to control the amount of money in circulation. • Licences the other banks and financial institutions. Banks can only set up in a country with a **licence** issued by the central bank. The chair of the central bank will meet with the heads of licensed banks to outline government policies and discuss banking activities, e.g. lending policies.
Jamaica Deposit Insurance Corporation – a scheme set up to safeguard customer interests if financial institutions experience problems or have to shut down	• A scheme whereby the government guarantees the money held in banks. • Funds deposited by individuals and businesses into banks regulated by the Bank of Jamaica are guaranteed up to J$600 000. • Creates confidence in the financial system, as depositors and savers know that their money is safe in a commercial bank.
Financial Services Commission of Jamaica – supervises and regulates the financial sector, including insurance companies, pensions and securities	• As a reaction to a period of financial instability between 1996 to 1999, which threatened the stability of the whole financial system, the government of Jamaica created a financial services commission. • This licences companies that want to sell insurance, pensions and a range of investments such as unit trusts. • It monitors the pensions sector to make sure companies are looking after people's money carefully, e.g. by investing it wisely, and by having enough funds to meet the needs of current and future pension holders. • Other Caribbean countries have also set up financial services commissions, for example one was established in Barbados in 2011.

The role of regulatory bodies

The US financial and banking crisis in 2008 highlighted the need to regulate the financial sectors of all economies. In the rush to earn as much profit as possible from loans, many major banking institutions were lending money to increasingly risky individuals and businesses. Eventually, it was exposed that some of these borrowers could not pay their loans back, and there was panic as people sought to withdraw all of their money from these banks. This led to the collapse of some large banks. It highlighted the need for regulatory bodies to play a role in financial markets around the globe, including in the Caribbean.

Regulatory bodies like the central bank and the financial services commission have many roles.

- Monitoring the activities of banks, credit unions, **pension funds**, insurance companies, **investment companies**, and other financial institutions. This involves checking that they have sufficient funds to meet the requirements of their customers, and that they are lending wisely and taking suitable risks (such as in the case of insurance and investment companies).
- Controlling the activities of these financial institutions – for example by setting out rules for how much they can lend, and the proportion of funds they must hold relative to their loans – to protect the interests of consumers of financial services.
- Guiding financial institutions, for example by producing literature about sound financial practice, meeting with the heads of these institutions to offer advice, and listening to the issues faced by these institutions. The guidance is designed to create a financial services sector in which consumers have confidence.

The functions of regulatory bodies

Laws governing the financial sector are created by the government of a particular country, and are enforced by the law courts and the relevant regulatory bodies. Regulatory bodies such as the central bank and the financial services commission therefore enforce the regulations and licences set out in national legislation and by the government. The minister of finance has overall responsibility for making sure that the regularity bodies are doing their work in accordance with their powers.

Regulatory bodies carry out the following functions:

- regulating the issue, supply and availability of money
- enforcing financial regulations from government
- administering the registering of financial institutions
- enforcing licences of various financial activities, including depository, lending, collection and money transmission activities
- advising the government on monetary and fiscal matters
- providing statistical data to the government and the public

Key term

Pension fund: a fund that individuals pay into (sometimes their company also pays a contribution), from which they can claim benefits when they retire (in proportion to how much they have paid in).

Investment company: a company that collects contributions from investors and then reinvests them in company shares. The investment company will pay out a return (dividend) each year depending on how profitable the investments have been.

Tip

The functions of regularity authorities such as the central bank and the financial services commission are to enforce regulations and licences granted to financial institutions. These relate to financial activities such as taking deposits, lending to customers, and the collection and transfer of money (e.g. making payments by card or cheque).

Now try these

1. Why is financial regulation so important? Who are the beneficiaries of financial regulation?
2. Explain one aspect of the system of financial regulation that is likely to give consumers more confidence to save and deposit their money in banks.
3. What type of actions carried out by financial institutions will regulators want to regulate?
4. **Business in action**: Which bodies are the key regulators in your country? See if you can find out online what the key terms are that govern the way these regulators are expected to carry out their work.

- creating public confidence in financial institutions
- supervising the operations of all financial institutions, especially commercial banks.

8.4

Describe the relationship between financial institutions and regulatory bodies

The main ways in which regularity bodies interact with financial institutions are explained below.

The regulatory role of the central banks

There are a variety of ways in which the central bank regulates commercial banks.

Varying the liquid assets ratio: Banks lend money for varying lengths of time, ranging from a few days to a number of years. If a bank lends out all of the money deposited with it, then it would not have any cash left to pay depositors seeking to withdraw funds. A key skill of effective banking, therefore, is to know how much cash to keep in reserve for customer withdrawals.

Banks will seek to find an appropriate balance between longer-term loans and short-term loans that can be converted into cash quickly (for day-to-day banking activities). The central bank will advise commercial banks about keeping suitable **ratios** of cash (kept in reserve) to loans (funds lent out).

In banking, the term **liquidity** is used to describe the ease with which an asset can be turned into cash. An **asset** is something that has value. Liquid assets are therefore cash or assets that can be converted into cash quickly. A bank will keep a certain proportion of its total assets in cash. It will also keep a certain proportion of its total assets in a liquid form. If the central bank believes that banks are lending too much, it can ask them to keep a higher liquidity ratio, such as 25 per cent rather than 20 per cent. If a bank was to ignore this request, then the central bank would go further and demand that the bank steps into line (or potentially lose its licence to operate).

The central bank therefore has a key weapon to control the volume of bank lending, by asking commercial banks to alter their liquidity ratios.

Key term

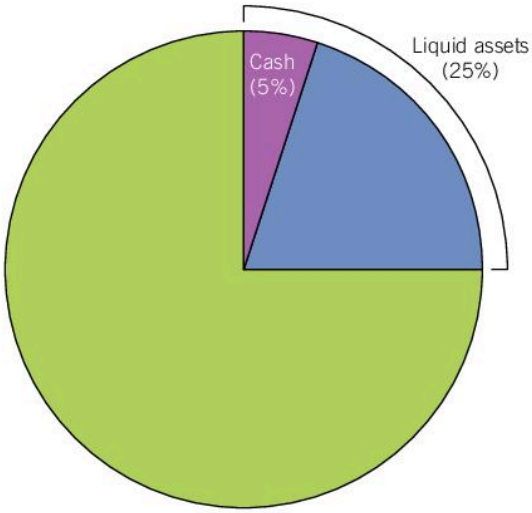
Ratio: the quantitative relationship between two amounts, showing the number of times one value contains the other.

Liquidity: the ease with which an asset can be turned into cash.

Asset: something that has value.

Cash ratio is the ratio of cash to all bank assets, in this case 1:20 (5%).

Liquid assets ratio is the ratio of liquid assets to all bank assets, in this case 1:4 (25%).



In the diagram above, the circle represents all bank assets. Cash assets are 5 per cent of the total. Liquid assets (i.e. cash and other liquid assets) are 25 per cent of the total.

Varying or adjusting the bank rate: The central bank has its own interest rate – called the **bank rate** – which is the interest rate it charges when other banks borrow from the central bank. This bank rate is then used to determine the interest rates charged by commercial banks to their customers who borrow loans.

If the central bank believes that there is too much borrowing taking place in an economy (potentially fuelling inflation), then it might increase the liquidity ratios that banks are expected to hold. The central bank can at the same time raise its bank rate, forcing the commercial banks to pay more to borrow money. This action forces the commercial banks to raise their own interest rates to lenders, in order to maintain their profits. In this way, raising its own interest rate will help the central bank to control the financial system, as higher interest rates discourage borrowing (because borrowers have to pay more interest on their loans).

Should the central bank want to encourage borrowing in the economy (for example because the economy is stagnating), then it will lower its interest rates, which leads commercial banks to lower their own interest rates.

Changing the minimum reserve requirements: **Reserves** are the funds that banks and other lending institutions are required to hold at the central bank (and which form part of a bank's liquid assets). Should the central bank want to reduce lending in the economy, it will require the commercial banks to hold more of these reserves, i.e. it will increase the minimum reserve requirement. If the central bank wants to increase lending in the economy, it will reduce the minimum reserve requirement. The **minimum reserve requirement** is the minimum quantity of funds that a bank is required at a particular time to hold in its accounts at the central bank.

Key term

Liquid assets ratio: the quantitative relationship between liquid assets and all assets in a financial institution.

Cash ratio: the quantitative relationship between cash and all assets in a financial institution.

Bank rate: the rate of interest at which the central bank will lend money to financial institutions.

Reserves: funds that banks and other lending institutions are required to hold at the central bank (and which form part of a bank's liquid assets).

Minimum reserve requirement: the minimum quantity of funds that a bank is required to hold in accounts at the central bank.

Now try these

1. Why might the central bank want to restrict bank lending in a country? Explain how the central bank can carry out this policy by:
   (a) imposing tougher liquidity ratios
   (b) increasing the bank rate
   (c) requiring additional reserve deposits from commercial banks.
2. In what circumstances might the governor of the central bank want to increase bank lending? Describe one way that it could go about achieving this.
3. **Business in action**: Access the website of the treasury or central bank in your country and find out when it recently sold treasury bills. What was the value of these treasury bills?

The regulatory role of the financial services commissions

The financial services commission of a country regulates the providers of financial services that are not monitored and controlled by the central bank. For example, in St Kitts and Nevis, the Financial Services Regulatory Commission (FSRC) is responsible for authorising and licensing companies to conduct financial services business, and for monitoring regulated financial services activities. The purpose of this regulation is to safeguard the public against illegal or unauthorised financial services operating within the country. The FSRC keeps a register of all international companies that have formed investment funds, including international insurance companies. Part of the role of the FSRC is to identify and prevent instances of money laundering through financial institutions.

In Barbados, insurance companies, credit unions, securities companies (investing in stocks and shares), and pension funds can apply online for licences from the financial services commission, and also access documents relating to the regular returns (forms and documents) that they need to provide.

The regulatory role of the supervisor of insurance

The supervisor of insurance is responsible for the overall regulation of the insurance industry within the country, in conjunction with the financial services commission. The Caribbean is an area that has become a centre for international insurance because a large number of international insurance companies have chosen to register their companies here (for example, there are almost 500 international insurance companies registered in Barbados). The attractions of setting up registered offices in the Caribbean are the very low tax rates and the ease of setting up a business (providing all of the required paperwork is given to the supervisor of insurance).

The supervisor of insurance has the role of checking that these are bona fide companies capable of conducting insurance business in a reliable and honest way. Information provided to the supervisor includes the names and details of the directors, and the capital of the company. The supervisor will register two types of insurance company:

- domestic insurance companies conducting their business within the CARICOM area
- international insurance companies, which are expected to conduct more than 90 per cent of their business outside of the CARICOM area.

8.5

Outline ways used by individuals to manage personal income

In the same way that a country needs to manage its financial affairs in a careful way, so too do households. This involves careful planning of

how much to spend, how much to save, and sometimes how to invest funds that are not required in the short period. There are many ways of managing personal income, as outlined below.

Budgets

A **budget** is a plan for the future set out in numbers. **Personal income** is the money that a person receives in a particular period of time. Income may come from wages as well as other sources, such as interest on money deposited in a bank.

A personal budget can be set out as follows:

- total income
- total expenditure
- savings (the difference between income and expenditure, which can be put into a savings account)
- the value of total savings, showing how savings build up over time.

The table below shows a typical monthly budget for a student called Samuel. He has a part-time job working in a bakery, for which he earns $200 a month. In addition, he receives some pocket money from relatives, including money for his birthday in April. This is shown as other income.

Samuel plans to save towards a college education, and will save the difference between income and expenditure. You can see from the table below that in the first six months for which the budget is shown, he plans to be able to put away $545.

Samuel recognises that a budget is just a plan, and that actual income, expenditure and saving may vary from his original plan. There may be expenditures for which he has not planned, and his income may be higher or lower than expected. However, the budget does help Samuel to plan how he will allocate his income, for example to identify what he will spend his money on, how much he will spend on different items, and how much he will be able to save.

	Jan	Feb	Mar	Apr	May	June
INCOME ($)						
Part-time wage	200	200	200	200	200	200
Other income	15	20	20	250	20	15
EXPENSES ($)						
Cellphone	50	50	50	100	40	50
Motorbike insurance		30			30	
Food	50	50	50	50	50	50
Drink	20	20	20	20	20	20
Entertainment	25	25	25	50	25	25
SAVINGS ($)						
Savings account deposits	70	45	75	230	55	70
Accumulated saving	70	115	190	420	475	545

Key term

Budget: a plan for the future set out in numbers.

Personal income: the money that a person receives in a particular period of time.

Key term

Savings: the part of an income that is not spent.

Investment: the purchase of assets in order that these assets will earn future income for you.

Capital gain: the increase in the value of an asset, which is realised when the asset is sold for more than its purchase price.

Savings

Savings are part of an income that is not spent. They can be kept in cash or in a bank account. A savings account is an account that usually earns a higher rate of interest than a deposit account. People typically leave their savings in a savings account for a long period of time because they want their savings to build up. As a general rule, the longer the term attached to a savings account, the higher the rate of interest will be. For example, if you open a savings account with a financial institution where you cannot touch the savings for two or three years, then the institution will pay you a higher rate of interest than if you open a savings account where you can withdraw the funds without any notice.

Investments

In the context of personal finance, **investment** means the purchase of assets so that these assets will earn future income for you, as well as a **capital gain**. For example, if you buy $200 worth of shares in the Sunny Beach hotel chain, you will expect to earn an income from the share of the profit it pays you in the form of a dividend (e.g. $20 a year). You would also hope to make a capital gain when you come to sell the shares. For example, if lots of people want to invest in Sunny Beach hotels then the share price might double, so your initial $200 investment may increase to $400 or more.

Tip

Make sure you can distinguish between investment and saving. Saving involves deferring from spending money, and savings can be kept as cash, in a deposit account or in a savings account. Investment involves using your money to purchase assets that you hope will earn you more money, both as an ongoing income as well as a capital gain.

Some people choose to invest in art, as they believe the paintings will become more valuable over time

Examples of investments include the following.

- Bonds: the lender buys bonds in the company and receives a return on the money invested.
- Stocks/shares: investors become part-owners of a company, and are entitled to a share of the profits. They hope to make a capital gain if they sell their shares.
- Unit trust: a fund that purchases shares in several companies. The buyer is entitled to a share of the profits made by the unit trust.

- Gold/property/valuable assets: an individual can invest in gold in the hope that the price of gold will rise. Similarly, land and real estate may increase in value, as may other valuable assets such as paintings and jewellery.

The nature of any form of investment is that just as the investment might increase in value, the value may also decrease. Investment is therefore a risky way of using your money.

Financial advising

Individuals will often seek financial advice about how to manage their income, expenditure and savings. Banks and other financial institutions provide literature about personal budgeting and the importance of being on top of your finances so that you do not end up in debt. In order to be able to control spending, it is important for individuals to know how much their spending is, and how they can cut back on inessential spending.

Most large banks employ financial advisors who can tell customers about different financial products, such as insurance, investing in shares, and opening a savings or deposit account. Today, financial advisors are allowed to explain various financial products, but they should not suggest that a customer buys a specific product; the decision should rest with the customer. This is to prevent **mis-selling** of financial products, whereby an advisor stands to make a commission from the sale of that product. Some financial advisors are independent, i.e. they are not employed by a bank or financial institution. They still give advice on financial products such as investments, property and savings accounts, and are also covered by legislation designed to protect customers from being mis-sold products.

8.6

Differentiate between savings and investments

As outlined above, savings are the part of an income that is not spent. Individuals and organisations save in order to:

- Have funds to meet future commitments (e.g. retirement) and future expenditures (e.g. to buy a car/house or some other asset).
- Keep their money safe.
- See their funds grow, because savings yield a rate of **interest**.
- Protect their existing funds against inflation. (Money loses value over time, but if that money is in a savings account then the value of the savings fund may be linked to the level of inflation.)

Forms of savings

Both individuals and businesses can save. For individuals, savings are called personal savings, and for businesses they are called retained

Key term

Mis-selling: when a financial advisor distorts information or embellishes the qualities of a particular financial product because he or she is likely to benefit most from commission from the sale of this financial product (rather than other products).

Interest: return paid to a saver. Fixed-rate interest involves paying a previously agreed rate of interest on the due dates.

Now try these

1. Why do you think some people invest in gold? What might be the drawbacks of investing in gold?
2. In what circumstances might investing in company shares prove to be better than investing in land?
3. What might the advantages be of investing in a unit trust rather than shares in a single company?
4. **Business in action**: Make out a personal budget showing your personal income, expenditure and possible savings for the next six months.

profits. Savings allow businesses or individuals to purchase goods in the future that are too expensive to be paid for out of their current income. There are many different forms of saving, outlined below.

Sou-sou: Sou-sou is a traditional form of saving in the Caribbean that originated in West Africa. It is based on a group of people jointly building up a shared pool of savings. When setting up the sou-sou, group members will decide how much to put into the pool of savings, and how frequently they will contribute. Then each week, one member will receive a hand (all of the money). Members may select to receive a hand at a particular time, or may appoint a treasurer who decides when members will receive a hand. Sou-sou is a great way for individuals to save because the group aspect creates social pressure on individuals to conform to a pattern of regular saving. In Guyana, sou-sou is known as "box hand", in Jamaica as "partna" or "partner", and in Trinidad and elsewhere it is known as "meeting turn".

Advantages of sou-sou	Disadvantages of sou-sou
• It is an informal way of saving that does not require a financial institution • There is a group pressure to save • Members can decide in what order they will receive a hand • The group can decide on the size of the contributions and how long to keep the system going • It is a good way of saving for special events such as weddings or birthdays	• If one or more members prove to be unreliable then the system may come crashing down and there will be bad feelings • There is no interest paid on the savings, and an individual may have to wait quite a long time to receive his or her hand

Deposits in financial institutions: Rather than spend your money, you can deposit it in a financial institution. There are three main types of accounts:

- deposit accounts
- savings accounts
- short-term fixed deposits.

A deposit account is an account where money can be placed for safe-keeping with a bank or other financial institution. The depositor can withdraw money and make payments from this account. Deposit accounts typically do not earn interest, and the account holder is likely to be charged for some of the services he or she uses.

A savings account is an account where you can store money that you do not need immediately, and earn some interest on your savings. With a savings account, a saver may be required to deposit a set sum each month as part of the agreement with a bank. The interest rate on savings will be influenced by the rate of inflation as well as other factors. Generally speaking, the market for savers is a highly competitive one, so the interest rate offered by one bank will be very similar to that offered by competitors.

Insurance companies also offer savings accounts and saving schemes. One of these schemes that is tied to life assurance is an **endowment policy**. The saver takes out an endowment policy for a given period of time. Should the saver die before the maturity of the policy, the beneficiaries will receive a lump sum representing the savings plus interest and other benefits. If the saver lives until the policy matures, he or she will receive a lump sum.

Short-term fixed deposits: A **term deposit** is a deposit that is held at a financial institution for a particular length of time. The investors get their investment plus the interest earned at the end of the agreed period.

Short-term fixed deposits are investments held for short periods (between one week and a maximum of twelve months). Because the investors tie up their investment for an agreed fixed period, they will typically receive a higher rate of interest than in other savings accounts. Should the savers seek to terminate their deposits at an earlier date than that stipulated, there may be significant financial penalties. Savers can deposit money in a short-term fixed deposit only at the start of the term, and the interest earned will be subject to income tax.

Advantages of short-term fixed deposits are:

- it is a good way of saving for a short period
- it is clear from the outset how much interest you will receive
- interest is higher than for savings accounts.

Key term

Endowment policy: a life insurance policy that pays a fixed sum on a fixed date or upon the death of the insured. The term of the endowment policy is usually linked to the purchase of an asset, and may have a "with profits" element attached to it.

Term deposit: a deposit that is held at a financial institution for a specific length of time.

Short-term fixed deposits: investments held for short periods (between one week and a maximum of twelve months).

Forms of investments

Investment is the purchase of assets that will generate income over a period of time. For example, if an investor buys shares in Grace Foods through the stock market, the money will be tied up until the investor eventually sells these shares. The investor will earn some income from the shares, as Grace Foods will pay a dividend to its shareholders (every six months) out of its profits. Investment is therefore a form of deferred income, where income comes at a later stage (it is deferred).

It is important to recognise that investment is a risk-bearing activity. Some company shares fall in value over time, while others increase in value. This is true of any investment. For example, if someone invests in gold, world gold prices may rise or fall. The investment may therefore be worth more or less than the original purchase price.

The main forms of investment in organised markets for investment products are outlined below.

The stock market: The stock market is where stocks and shares in companies are bought and sold. Many countries have a stock exchange, which is a building where traders in stocks and shares operate on behalf of buyers and sellers. Today, many of these transactions are conducted online.

The New York Stock Exchange is the largest in the world

Key term

Conglomerate: a company that operates in a number of industries, such as banking and insurance, oil and chemicals, or other combinations.

Treasury bill: a short-term loan to the government.

Government bond: longer-term borrowing by the government.

Face value: the value written on the front of a paper security, or the value of a paper security (such as a treasury bill) on its redemption date.

Mature: the date at which a financial asset (such as a treasury bill) becomes due for repayment.

Debentures: forms of borrowing and lending that are not secured by collateral.

The intermediaries who buy and sell shares are called "market makers", because they bring together buyers and sellers (they "make markets"). Market makers buy shares at one price and then sell them at a higher price, and they receive a commission for their work.

The world's largest and best-known stock exchanges are in New York, Tokyo, Shanghai, Hong Kong and London. The largest stock exchange in the Caribbean is the Trinidad and Tobago Stock Exchange, which trades shares in the Trinidadian **conglomerates** ANSA Merchant Bank, Republic Bank, and National Enterprises.

Stocks and shares are investments in companies. There are three ways that investors can benefit from holding stocks and shares.

- Their money is tied up in the investment, so it is a form of saving in that the money will not be spent while it is tied up.
- The shareholder will receive regular dividends (usually an interim dividend halfway through the financial year, and a final dividend at the end of the financial year). A company needs to be making a profit to pay dividends.
- The price of the shares might increase, because more people want to hold shares in the company (as they believe the company has good long-term prospects).

Government securities: bonds, debentures: A government security is a piece of paper showing that an investor has lent the government money for a given period of time. The piece of paper is a promise that the government will repay the loan at a specific time in the future. One type of government security is a **treasury bill**, which is a short-term loan to the government. It is often issued for 30 days, 60 days or 90 days.

Government bonds are a form of longer-term borrowing by the government. The government sells the bonds to investors at a discount (for less than their **face value**), and then will pay out regular interest on the bonds until they **mature**, at which point the full face value will be paid out. While most government bonds have a fixed date for repayment, others will be undated, and the government will simply pay interest on these undated bonds until it decides to repay the face value.

Debentures are forms of borrowing and lending that are not secured by collateral. The debenture holders buy the debentures in good faith that they will be repaid with interest. Government treasury bills and government bonds are examples of debentures.

Companies can also sell debentures to investors rather than selling them shares. Debentures are repayable at a fixed date, and pay a fixed rate of interest.

Mutual funds: A mutual fund is a professionally organised investment company that pools money from lots of investors, then invests this

money in the stocks and shares of a range of companies (as well as investing in bills and bonds). The mutual fund will usually specialise in particular types of shares, such as US and Caribbean shares, or shares in high-tech companies, etc.

The key advantage of investing in a mutual fund is that the investment is spread over a range of companies rather than depending on the fortunes of a single company, and the investor's money is handled by investors experienced in particular types of shares. Disadvantages of investing in a mutual fund include the amount of time it takes to research which are the best investment trusts. There is also a danger that when the manager of an investment trust changes, it might then switch the focus to new types of shares.

Now try these

1. What are the main differences between investment and saving?
2. What factors should be taken into account when making an investment?
3. Why might an investor prefer to invest in government bonds rather than shares in public companies?
4. Martha has inherited $30 000 from an aunt on the condition that she saves this money rather than spends it. Advise her on whether she should put this money into a deposit account, an ordinary savings account, or a five-year fixed-term deposit account. Explain the reasoning behind your choice.
5. **Business in action**: Research the website of either the Barbados or the Jamaica stock exchange. What types of shares are traded on this exchange? Does the exchange also deal with government securities?

Tip

Make sure you can distinguish between shares and debentures. Shares are bought by people who want to become part-owners of a company and to share in its profits. Their share dividend will fluctuate with the profits the company is making. In contrast, debenture holders are lenders to a company. The company must pay interest to them when it is due, and interest must be paid before any dividends can be released.

8.7

Explain the concepts of short-term and long-term financing

Businesses need finance for both short- and long-term purposes. In the short term, finance is required to make regular payments, such as to pay wages, purchase supplies, or pay electricity and utility bills. These short-term funds are called working capital.

In the long term, finance is required to purchase the major assets on which a business is based: land, buildings, machinery and other permanent assets.

Types of short-term financing

Trade credit: Suppliers will often supply goods "to the trade" on credit terms. There is a period of trade credit – for example, one month, three months or longer – after which the company will need to pay for the supplies.

Many small businesses use a credit card for short-term bills. The business can then pay the credit-card company at the end of the month, or later. The longer the business takes to repay the credit, the more interest it will have to pay.

Commercial bank loans: With a commercial bank loan, the bank provides the loan and the borrower repays the capital over time (with interest), usually in monthly instalments. Loans are typically taken out over a period of years rather than months. These types of loans are more common in established companies, as it is difficult to secure a business loan from a bank at the start-up stage.

Promissory notes: Promissory notes are signed documents that contain a written promise to pay a stated sum, to a specific person, by a certain date. The promissory note will contain the terms relating to the debt, such as the amount, the interest rate and the maturity date. A promissory note is therefore a means for a business to gain finance from a party other than a commercial bank.

Instalment credit: Instalment credit is credit that is granted on condition that it will be repaid at regular intervals. An example might be hire purchase, where the hirer purchases an item and pays for it in regular instalments. The hirer only owns the item once he or she has paid the final instalment. The advantage is that the hirer is able to use the item immediately, then pay for it over time from the profits he or she is able to make from using the item.

Indigenous credit: Indigenous credit systems are common in parts of the world where historically many people have not had access to formal bank lending. One example of indigenous credit is sou-sou (see page 274). Many people belong to these schemes, whereby a group of people will jointly put money into a central pool of funds, and then take it in turns to access this pool. A group of entrepreneurs, for example, might set up such a scheme so that each of them at a specific time is able to take the hand of funds.

Private money lenders: Businesses can also obtain funds from private money lenders. However, this is not an advisable way of accessing funds as the interest rates can be very high, particularly when the money lender is not part of a regulated system. Typically, a business would only borrow from a private money lender if it has an urgent need for funds and no other source is available.

Advances from customers: A business can acquire capital from a customer, who may pay an initial deposit and then pay instalments prior to the completion of the work. For example, a furniture manufacturer or builder asks a client to pay for some of the materials and wages before the work is completed, providing the entrepreneur with a much-needed cash flow.

Factoring: A business might need cash to finance its current activities, but has to wait for its outstanding invoices to be paid. To get around this situation, the invoices can be sold to a **factoring** company for less than their face value. For example, Seaside Enterprises is owed $10 000 through invoices it has issued, which are due for payment in three months' time. Seaside Enterprises needs cash to pay current liabilities. The company therefore sells these invoices to ABC Factoring for $9 500. ABC Factoring then collects the payments when they are due.

Venture capitalists: Venture capitalists are rich individuals who are willing to invest in a new business enterprise. They will provide an injection of cash in return for a share in the business. Venture capitalists are usually able to contribute advice as well as money, as they are often experienced in the business world. They are also likely to have useful contacts, such as existing relationships with retailers who may be willing to sell a new product.

Crowd funding: This is a new way of raising finance for business that has sprung up with the growth of the Internet and the use of social media. Entrepreneurs can set out the details of their businesses on a crowd-funding website, in the hope of attracting funds which can come from all over the world. Members of the "crowd" may not want a return for their financing, or they may want to receive some form of benefit. For example, if a theatre company raises funds in this way then contributors may expect to receive theatre tickets and feedback on how the company is doing. Crowd funding can also be promoted through social media sites such as Facebook, where details of a venture are shared widely on the platform.

Angel investors: **Angel investors** are individuals or groups of investors who seek to invest in businesses that have been set up using the owner's own funds, as well as money from family and friends. The business wants to expand, but finds it difficult to get a loan (e.g. from a bank). The business might therefore turn to angel investors, who are rich individuals looking for very high returns on their investment. The angel investor will lend the business money or take shares in the business. Angel investors typically lend smaller amounts than venture capitalists (see above) but expect to take very high returns for their investment.

Key term

Factoring: a system whereby a business sells its accounts receivables (money owed to the business in unpaid invoices). The accounts receivables are sold to a factor (third party) at a discount.

Angel investors: wealthy individuals who provide funding for an existing company in return for a share of the equity of that business.

Crowd funding is becoming more popular with creative entrepreneurs and start-ups

Types of long-term financing

Businesses also need long-term finance, i.e. for periods of more than one year. This finance will usually be tied up in longer-term assets such as premises, machinery, storage facilities and transport vehicles. Such finance can be secured from public-sector or private-sector lenders.

Loans from government agencies: Governments often seek to promote small businesses because they create jobs, sell exports and contribute to effective nation building. In the Caribbean, this promotion has been supported by the growth of development banks. A development bank is a financial government agency that specialises in funding new and growing businesses and projects.

For example, in 2017 to 2018, the Development Bank of Jamaica provided over $8 million worth of funding to businesses through various schemes. Entrepreneurs are able to access these funds through approved financial institutions, including designated private equity and private credit funds. The Development Bank also provided grant funding for 26 business start-ups as part of an Innovation Grant from New Ideas to Entrepreneurship (IGNITE) scheme.

Private sector investment and loans: There are a number of ways that small businesses can access funding and longer-term forms of financial support from the private sector.

Long-term form of financial support	Description
Mortgage	A mortgage is a loan for the purchase of property. If the borrower fails to make repayments, the lender can take him or her to court and, if necessary, take ownership of the property. The size of the mortgage depends on the value of the property and how much is borrowed. A typical mortgage may be for a period of up to 25 years, making it one of the longest forms of loans.
Debenture	A debenture is a debt instrument (a piece of paper acknowledging a debt) that is not secured by physical assets (there is no collateral). The borrower must repay the debt plus interest by a set date. Debentures are issued for both long- and short-term borrowing, and by both private businesses and the government.
Shares	The value of shares in a company is referred to as the "equity" of the business. Shares are issued in set denominations, such as $5, $10, $100, etc. However, once the shares have been issued, their prices can start to rise or fall depending on how popular the shares are with investors. The shareholders become part-owners of the business, and are rewarded in the form of dividends. However, a company is not obliged to pay dividends (although it will want to do so in order to keep its shareholders happy).
Insurance	Insurance is a form of investment, in that payments for insurance cover the insured against potential losses. The insured will take out a policy that will cover certain losses, should they occur.
Investment company	An investment company is a company specifically set up to pool lots of small investments from investors. It then invests these funds in stocks, shares and government bonds and bills.

Unit trust	A unit trust is an example of an investment company. A unit trust is made up of units of equal shares. An investor can buy one or more units. The trust is managed by a professional fund manager. There are many different unit trusts around the globe. Unit trusts help to broaden the market for business finance, because investors who might be reluctant to invest in the shares of one company may feel that it is safer to spread their risk by buying units in a unit trust, particularly when the fund is managed by a specialist investment manager. When you buy shares in a company, you become a part-owner of that company. However, this is not the case with unit trusts, where you do not become a part-owner of a company; instead you simply have units.

Now try these

1. A start-up business needs to access finance immediately in order to buy stock, which it will then resell for a profit. Outline three methods it could use to obtain finance. Explain the benefits and drawbacks of each method.
2. A small business wants to expand, but it has already exhausted the use of funds from the owner's capital and from family and friends, and it is not able to secure a bank loan. Explain one way the business could secure additional funding.
3. Identify two financial institutions that might provide long-term finance for a business. What types of finance do these institutions provide, and how would this help a growing business?
4. **Business in action**: Identify sources of government finance that are available in your country for small business development. How would you go about applying for such funding?

Tip

Make sure you can list at least four short-term sources of finance for a small business, and at least four long-term sources of finance. Make sure you can describe how the business would access the types of finance you have listed, and what the key features are of each type of finance.

8.8

Identify personal sources of capital for setting up a business

You cannot set up a business without funds. You can either access funds from personal savings, borrow from family members and friends, or borrow from people who you do not personally know. In this last case, this will usually be through organised markets that provide finance.

Friends and family

Entrepreneurs need to have confidence in their business ideas and their own ability to run a business if they are going to raise funds from family and friends. Should the business fail, then the owner will potentially lose friends and damage the confidence of close relatives. Friends and family may be the easiest people to convince to back a business, but

the owner needs to be confident he or she will be able to repay their generosity (and at some stage in the future, return the capital that was lent and pay a share of the profits to these investors).

Personal savings

Some entrepreneurs use their personal savings to finance an enterprise. This is easier than pitching for loans and investment, but it is dependent on the owner having previously built up a pool of savings. Additional funds come from ongoing profits that are ploughed back into the business.

Government grants

A **government grant** is a financial award given by the central, local or municipal government, and it is usually not expected to be repaid. Government grants are sometimes available for business start-ups and businesses that contribute to nation building, for example by creating jobs or engaging with environmental initiatives.

For example, in St Lucia, businesses and other organisations can apply for grants for projects that fit in with the country programme strategy. To qualify, a project should contribute to the objectives of environmental sustainability, poverty alleviation and capacity development. An entrepreneur who wants to set up a new business recycling metal in St Lucia, who is able to produce a convincing business plan, might qualify for a grant by showing that the business will provide environmental benefits, as well as creating jobs in St Lucia.

Key term

Government grant: a financial award given by the central, local or municipal government, which is not usually expected to be repaid.

Equity: the value of the owner's contribution to a business. Equity is represented by the value of the share capital of a company, or the owner's contribution of capital in a smaller business.

Loans

A business owner can borrow from a bank or other form of financial institution. The bank provides the loan and the borrower repays the capital over time (with interest), usually in monthly instalments. Loans are typically taken out over a period of years rather than months. It is more difficult to secure a business loan from a bank at the start-up stage.

To secure a loan, a business will often need to provide some form of collateral as security, such as business equipment or vehicles (if owned outright). In addition, the borrower needs to provide a convincing projection of expected future revenues, costs and profit forecasts in order to demonstrate that the loan can be repaid.

Equity

New businesses that set up as a private limited company are able to raise funds through selling **equity**. In this sense, equity refers to the shareholder's contribution to the business, i.e. the owner's interest in the business. The owner contributes funds by buying shares in the new company. The owner's equity then becomes the owner's interest in the business. It can be calculated by subtracting any liabilities that the business has from what the business owns at a particular moment in time.

The advantage of raising finance through equity rather than through loans is that the owners do not have to be paid a share of the profits that the company makes in any one year. In contrast, a business has a legal responsibility to pay interest to lenders.

Venture capital

Venture capital is financial capital provided to businesses at an early stage of development. Venture capitalists invest in new businesses that have a high potential for growth, even though there is a significant risk associated with such an investment. The venture capital fund makes money by owning equity (see above) in the companies in which it invests. Venture capitalists tend to invest in areas such as new technology, IT software, music and recording, environmental solution companies and other dynamic sectors of the economy.

Crowd funding

Crowd funding is a new, alternative source of finance for businesses and not-for-profit ventures. Crowd funding uses the Internet to inform potential investors about projects and causes that they can support. One of the best examples is US-based Kickstarter, which is a website focusing on creative projects in the arts, media, food and other creative industries. The wider public is invited to group together to provide funds for ventures and business ideas. A supporter simply pledges funds online, sometimes for a return or reward such as a copy of a new music album.

Now try these

1. Contrast using personal savings, funds from friends and relatives, and funds from venture capital as ways of raising finance for a start-up business. If you were going to set up a start-up business, which of these sources would you feel happy to turn to and why?
2. Vinod and Devon are partners in a small partnership that deals with the import and export of textiles. They now want more finance for their business, and are considering changing to a limited company format. Vinod believes that they should raise capital from the business through the sale of equity in the form of ordinary shares. Devon would prefer to raise finance by taking out a bank loan and remaining a partnership. Compare the advantages of raising finance through equity and through loans.
3. **Business in action**: Identify a situation where finance has been raised in your country recently through crowd funding. How was the funding organised, who were the beneficiaries and how much was raised?

Key term

Venture capital: funds provided by venture capitalists (usually rich individuals) to help fund the business projects of small businesses.

Crowd funding: the contribution of lots of small sums of capital by a large number of people to fund a venture. Crowd funding is typically carried out through the "crowd" contributing sums of capital (funds) through online contributions.

Tip

Make sure you can differentiate between loans and equity as forms of financing start-up enterprises. Loans come from lenders outside an organisation. They need to be repaid eventually, and lenders are entitled to regular payments of interest. In contrast, equity is the owner's stake in a business. The owner purchases shares in the business, which he or she then sells to receive dividends of the profits of the business. Lenders must be paid first out of any profits before returns can be made to shareholders.

8.9

Identify the purposes of basic financial records for sole traders

A sole trader will need to keep records for a variety of reasons.

- Personal records: to know how much the business is worth and how much profit it is making. By studying changes in profit over time, the sole trader can identify ways of running the business better.
- Tax records: to create a record of income and expenditure in order to calculate profits for the tax authorities, and to calculate how much tax needs to be paid.
- Records for lenders: should the business require funds from a bank or other lender, the lender will want to study the accounts to check on the likelihood of the business being able to repay loans.

The starting point is for the business to record the purchases, sales and transactions it makes on a day-to-day basis. The business will keep a number of books of financial transactions, including the following.

- Purchases: money spent by the business on, for example, raw materials. These records are kept in a **purchase ledger**.
- Sales: sales of finished goods to consumers and other buyers. These records are kept in a **sales ledger**.
- Other financial transactions: for example, the purchase of machinery for a factory or fixtures and fittings for a shop, the payment of wages and the payment of rates and rents, etc. These records are kept in the **general ledger**.

Key term

Purchase ledger: an accounting book/electronic pages recording the value of purchases made by a business, the dates on which the purchases took place, and from whom they were bought.

Sales ledger: an accounting book/electronic pages recording the value of sales made by a business, the dates on which the sales were recorded in sales documents, and to whom the sales were made.

General ledger: an accounting book/electronic pages recording all of the accounts apart from purchases and sales.

Different types of bookkeeping systems

Keeping records of financial transactions is called "bookkeeping", and a sole trader needs to have an organised system for keeping their "books". These records can either be kept using a single-entry system or a double-entry system.

Single-entry bookkeeping: As the name suggests, single-entry bookkeeping involves making a single entry when a transaction is made. The table below relates to a small stationery wholesaler that is already up and running.

Money earned when a sale is made

Money spent when purchases of supplies are made

How much is in the bank after each transaction has been made

Date	Description	Reference no.	Income ($)	Expenses ($)	Bank balance ($)
1 March	Balance b/f				20 000
4 March	Paper/ stationery	1		4 000	16 000
6 March	Stationery sales	2	8 000		24 000
8 March	Paper purchases	3		7 000	17 000
10 March	Packaging purchases	4		1 500	15 500
12 March	Paper sales	5	6 000		21 500
15 March	Stationery sales	6	2 000		23 500
19 March	Stationery purchases	7		6 000	17 500
22 March	Office equipment	8		1 000	16 500
24 March	Assorted sales	9	10 000		26 500
27 March	Bank charges	10		1 180	25 320
29 March	Cellphone charges	11		320	25 000
TOTALS			26 000	21 000	25 000 c/f

Income increases the bank balance. **Expenses** reduce the bank balance. The term "b/f" means brought forward and, in this instance, refers to the bank balance at the end of February which is brought forward to March. The term "c/f" means carried forward and, in this instance, refers to the bank balance at the end of March which will be carried forward to April.

You can see from this simple set of entries that the business started March with $20 000 in the bank, and completed the month with $25 000 in the bank, which could be carried forward to the start of April. The reference numbers in the third column make it easy for the bookkeeper to check the records should that be necessary, as documents such as invoices will be filed according to these references.

Key term

Expenses: the costs of doing business.

Double-entry bookkeeping: The differences between single-entry and double-entry bookkeeping are highlighted in the table below.

Single entry	Double entry
Entries are made for cash transactions only	Entries are made for cash transactions and credit transactions
The two aspects of a transaction are not mentioned	The two-fold aspects of a transaction are shown in the bookkeeping records
Used by very small and simple businesses	Used by larger and more complicated businesses

In a double-entry bookkeeping system, all transactions are entered twice. For example, a business uses cash to purchase a new computer (a piece of office equipment) for $4 000. The bookkeeper will therefore make two records in the books: a credit of $4 000 in the cash account, and a debit of $4 000 in the office furniture account. In a double-entry system, this can be set out as follows.

Account	Debit	Credit
Office equipment	$4 000	
Cash		$4 000

The debit increases the value of the office-equipment account, and the credit reduces the value of the cash account. Using this system of double entry, the books of the business will stay in balance. The way to achieve this is to make sure that for every debit entry there is a corresponding credit entry in the books.

At the end of a particular period of time (such as the end of a month), the bookkeeper will go through the books of account to check that the accounts balance. Today, this process is supported by the use of IT programs that make out double entries, which automatically check that the accounts balance.

Keeping the books is a complex process that requires careful attention to detail to make sure that primary records (such as figures on invoices and bank statements) are accurately recorded in the ledger accounts.

The purposes of basic financial statements

Income statement (profit and loss): In the section above, we saw that a business keeps a purchases ledger and a sales ledger, showing the figures for purchases and sales. This information is invaluable in helping the business to calculate how much profit it is making. This information can be put together in what is called an income statement (previously known as a profit and loss statement). This shows how much a business has earned from selling its products or services, and how much it has paid out in costs. The difference between revenue and costs is the profit earned.

A typical income statement will look like the following.

	$
Sales revenue	100 000
Less: cost of goods sold	(40 000)
Gross profit	60 000
Less: overhead costs	(20 000)
Trading/operating profit	40 000
Profit for shareholders (dividends paid)	10 000
Retained profit	30 000

In the income statement above, the firm has sold $100 000 worth of goods. All of the expenditures involved in making these sales (such as the cost of buying goods for resale) amounted to $40 000.

This company has therefore paid $40 000 for its stock for the year, and sold this stock for $100 000. This would give a gross profit of $60 000 (sales *minus* cost of sales).

	$
Sales revenue	100 000
Less: cost of sales	(40 000)
= Gross profit	60 000

However, businesses also have other costs in running their operations, such as wages, air conditioning and lighting, telephone bills, etc. If these **overhead** costs amount to $20 000, this business would make a **trading profit/operating profit** of $40 000.

	$
Gross profit	60 000
Less: overhead costs	(20 000)
= Operating profit	40 000

The business then needs to decide how to share this $40 000 between the shareholders while also retaining profit to improve the business. In this case, the business distributes $10 000 to shareholders while keeping $30 000 in the business for expansion purposes.

	$
Operating profit/trading profit	40 000
Profit for shareholders (dividends paid)	(10 000)
= Retained profit	30 000

An income statement gives an immediate indication of how well a business has done over a period of time. Figures from the income statement can be used to calculate what are referred to as profit margins. Profit margins are worked out as a percentage (%).

We can calculate the **gross profit margin** by calculating the gross profit as a percentage of sales. For example, in the business example shown above, the business made $60 000 of gross profit from $100 000 of sales. As a percentage, this is:

$$\frac{60\,000}{100\,000} \times \frac{100}{1} = 60\%$$

In dollar terms, this business is making 60 cents of gross profit for every $1 of sales.

We can also calculate the operating or trading margin by calculating the trading profit as a percentage of sales. For example, the business has

Key term

Overheads: all ongoing business expenses, not including the labour or materials used to create a good.

Trading profit: in the income statement, trading profit applies to companies that buy and sell goods (i.e. shops and other retailers), and is calculated by deducting overhead costs from gross profit.

Operating profit: in the income statement, operating profit applies to companies that manufacture goods. These manufactured goods will sometimes be sold to other manufacturing companies, sometimes to retailers, and sometimes to the end consumer.

Gross profit margin: the percentage of profit a business makes after the cost of goods sold are deducted from revenues.

Operating profit margin: the percentage of profit a business makes after all costs are deducted from sales.

made a $40 000 trading profit from $100 000 of sales. As a percentage, this is:

$$\frac{40\,000}{100\,000} \times \frac{100}{1} = 40\%$$

The purpose of an income statement is therefore to:

- identify how much gross profit and trading/operating profit has been made in a specific period of time
- enable calculations of profit margins, in order to ascertain whether the business is becoming more or less profitable, and to make comparisons with similar companies
- set out the company's revenues and costs during a specific period of time
- identify aspects of business performance that can be improved.

The statement of financial position (balance sheet): A statement of financial position (formerly known as a balance sheet) is a statement showing the financial health of a business at a particular moment in time. It is usually drawn up at the end of the financial year, but can also be created at other times (such as halfway through the year).

Information in a statement of financial position enables you to compare how much a business owns with how much it owes to lenders (such as to banks).

Key term

Inventory: a complete list of the stock in hand at a business.

Assets are items that are owned by a business, and there are two main types. Non-current assets are items used continuously by the business such as buildings, machinery and vehicles. Current assets are also owned by the business, but they are more easily turned into cash (as well as including cash). Examples include **inventory** waiting to be sold, and money owed to the business by credit customers.

Liability is money that a business owes, which the business is responsible for paying to others. Non-current liabilities are debts that a business has to pay over a number of years. Some of them may be very long term, such as repayment of a 25-year mortgage. Short-term liabilities are debts that a business has to pay in less than a year.

The assets and liabilities of a small shop can be shown as part of a statement of financial position, as shown below.

		$ (Subtotal)	$ (Total)
Non-current assets	Premises and van		100 000
Current assets	Inventory	20 000	
	Trade receivables	2 000	
	Cash at the bank	2 000	
	Cash in tills	2 000	
			26 000
Total assets			126 000

In the example above, the business has a total of $100 000 of non-current or fixed assets, and a total of $26 000 of current assets. So the total value of all assets is $126 000.

We can now look at what the business owes. This is set out in the capital account, as shown below.

Capital account	$
Balance at 1 August 2020	45 000
Add: net profit for year	20 000
Less: drawings for year	(15 000)
Owner's capital	50 000

In the example above, at the start of the year the owner had invested $45 000 in the business, so the business owed $45 000 to the owner. During the course of the year, the business made a profit of $20 000 (after costs had been deducted). The owner drew $15 000 out of the capital for his or her own purposes, i.e. the owner was been paid $15 000 by the business. At the end of the year, the business therefore had a remaining owner's capital of $50 000.

Finally, we can add the liabilities into our statement.

	$ (Subtotal)	$ (Total)
Non-current liabilities	55 000	
Current liabilities		
Accounts payable	21 000	
		76 000

We can now simplify the statement by just including the totals of the three main sections.

	$ (Subtotal)	$ (Total)
Value of all assets		126 000
Value of the owner's capital	50 000	
Value of all liabilities	76 000	

We can now see why this statement used to be called a balance sheet; the value of what the business owns (its assets) is equal to the value of what the business owes (funds owed to the owner, and all other liabilities):

Assets = owner's capital + liabilities (this is referred to as the accounting equation)

$$\$126\,000 = \$50\,000 + \$76\,000$$

The purpose of the statement of financial position is therefore to:

- illustrate the various assets, liabilities and owner's capital of a business

- show a balance between the assets and the owner's capital + liabilities
- show how the profits of the business add to the owner's capital, and drawings reduce the value of capital
- illustrate the value of a business in terms of its assets and/or owner's capital.

The statement of cash flow: There is one further statement that you need to know about, which is the statement of cash flow. This statement deals solely with the movement of cash in and out of a business, which is quite different from profit. Profit is shown in the income statement.

Whereas the statement of financial position shows the value of a business on just one day, the statement of cash flow shows the movement of cash over a period of time.

Knowing about cash is very important to a business because without it a business will not be able to carry on (even if it is making a profit). Cash is required to pay for petrol, to pay wages, to pay for new stock and many other things. In business there is a saying that "cash is king".

There are three main types of cash flow.

- Cash from operating activities: these are cash flows that are part of net income, such as cash used to buy new stock, or cash received from making sales.
- Cash from investment activities: these are cash flows that are related to non-current assets, such as investment in new plant and machinery (an outflow of cash), or money earned from the sale of part of a company's land (an inflow of cash).
- Cash from financial activities: these are cash flows that are related to non-current liabilities, and to changes in owner's capital. For example, this would include cash inflow from the sale of shares, or cash outflow from the payment of cash dividends.

The table below shows the three types of cash flows.

Cash from operating activities	Cash from investment activities	Cash from financial activities
Cash flows related to net income	Cash flows related to non-current assets	Cash flows related to non-current liabilities and changes in owner's capital
Results overall in a positive inflow of cash	Results overall in either a positive or negative flow of cash	Results overall in either a positive or negative flow of cash
E.g. income from sales (positive), or expenditure on purchases (negative)	E.g. a purchase of plant (negative), or cash from the sale of land (positive)	E.g. sales of shares (positive), or the payment of cash dividends (negative)

The statement of cash flow is set out in a vertical format in the following way.

	$
Cash from operating activities	xxx
Cash from investment activities	xxx
Cash from financial activities	xxx
Net movement of cash	xxx

The purpose of the statement of cash flow is to:

- focus purely on the cash movements in and out of a company during a particular moment in time
- identify whether the business is building up or running down its cash reserves
- show the net movement of cash in a specific period of time, i.e. cash in versus cash out
- itemise the various movements of cash under the three key headings for different types of cash flows.

Now try these

1. How might an income statement be of use to someone who has bought shares in a particular company?
2. How might a statement of cash flow be of use to someone who is considering lending a business a large sum of money?
3. What would a sole trader be able to find out from studying the statement of financial position for their own business?
4. **Business in action**: A business has the following assets and liabilities:
   - Non-current assets: $100 000
   - Current assets: $30 000
   - Non-current liabilities: $30 000
   - Current liabilities: $20 000

   Work out the figure for owner's capital, and show how you would work out the accounting equation in this instance.

Tip

You should know that an income statement sets out revenue earned and costs paid out over a period of time (usually six months or one year). A statement of cash flow focuses on cash movements rather than profits, and like the income statement it sets out these movements over a period of time. In contrast, the statement of financial position gives a snapshot at a moment in time of the relationship between the assets, liabilities and owner's capital of a business.

Develop your exam skills

PAPER 1

1. Which of the following financial institutions works on a not-for-profit basis?
   - A Commercial banks
   - B Insurance companies
   - C Credit unions
   - D Unit trusts

2. A bank customer has been given permission to spend up to $200 over and above the balance that is currently in the customer's bank account, and will be charged on a daily basis on the amount owing. From which of the following financial products is the customer benefitting?
   - A A loan
   - B A mortgage
   - C A credit card
   - D An overdraft

3. Which of the following bodies insures the funds of customers that are deposited in commercial banks in Jamaica?
   - A The Central Bank of Jamaica
   - B First Caribbean bank
   - C Jamaica Deposit Insurance Company
   - D The Financial Services Commission of Jamaica

4. In many Caribbean countries, the body primarily responsible for regulating insurance companies and pension funds is:
   - A The central bank of the country
   - B The largest commercial bank in the country
   - C The financial services commission of the country
   - D The parliament of the country

5. The regulatory authority responsible for licensing commercial banks is:
   - A The financial services commission
   - B The central bank
   - C The minister of finance
   - D The chair of a commercial bank

6. Which of the following is a form of investment?
   - A Deferring (holding back) spending until the future
   - B Purchasing units in a unit trust
   - C Spending money on current consumption
   - D Earning extra income

7. Ramesh has a job working in the United States and sends part of his income each month to his family in Kingston, Jamaica. This is an example of:
   - A Remittance
   - B Investment
   - C Credit
   - D Expenditure

8. The role of the supervisor of insurance is to:
   - A Insure funds deposited in the commercial banks
   - B Guarantee insurance to manufacturers
   - C Regulate the insurance industry
   - D Insure risks on behalf of businesses

9. Priyanka's business is mainly financed by equity capital. This means that:
   - A The majority of her funds come from loans
   - B Family and friends have lent the business large sums of money
   - C The business has issued shares to provide funding
   - D The business relies mainly on trade credit

10. A good example of long-term finance is:
    - A A mortgage
    - B Trade credit
    - C Crowd funding
    - D A bank overdraft

PAPER 2

1. (a) State two (2) sources of short-term financing. **(2 marks)**
   (b) Identify one (1) financial institution which offers short-term financing. **(1 mark)**
   (c) Differentiate between "savings" and "investment", using examples. **(6 marks)**

2. (a) Identify two (2) regulatory bodies in the financial sector. **(2 marks)**
   (b) Describe the role of EACH regulatory body identified in 2 (a). **(4 marks)**
   (c) Differentiate between "commercial banks" and "credit unions". **(4 marks)**

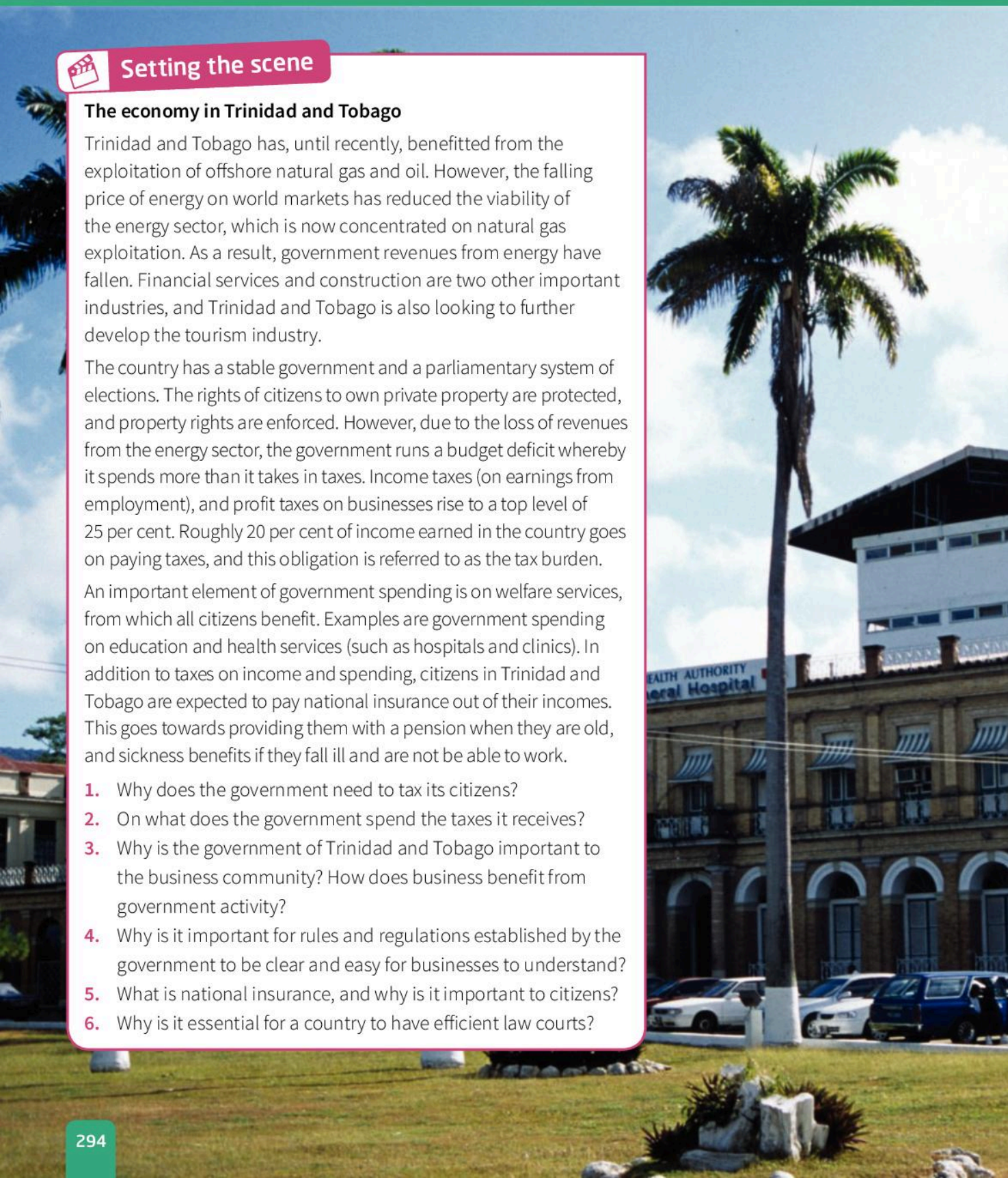
3. (a) Define the term "budget". **(2 marks)**
   (b) Identify three (3) sources of personal capital that can be used to set up a business. **(3 marks)**
   (c) Explain the purpose of any two (2) financial statements that sole traders can use. **(6 marks)**

4. (a) Identify two (2) non-bank financial institutions. **(2 marks)**
   (b) Explain one (1) function of EACH non-bank financial institution identified in 4 (a). **(4 marks)**
   (c) Discuss two (2) services offered by financial institutions which are available for 24 hours per day. **(6 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

9 The role of government in an economy



Setting the scene

The economy in Trinidad and Tobago

Trinidad and Tobago has, until recently, benefitted from the exploitation of offshore natural gas and oil. However, the falling price of energy on world markets has reduced the viability of the energy sector, which is now concentrated on natural gas exploitation. As a result, government revenues from energy have fallen. Financial services and construction are two other important industries, and Trinidad and Tobago is also looking to further develop the tourism industry.

The country has a stable government and a parliamentary system of elections. The rights of citizens to own private property are protected, and property rights are enforced. However, due to the loss of revenues from the energy sector, the government runs a budget deficit whereby it spends more than it takes in taxes. Income taxes (on earnings from employment), and profit taxes on businesses rise to a top level of 25 per cent. Roughly 20 per cent of income earned in the country goes on paying taxes, and this obligation is referred to as the tax burden.

An important element of government spending is on welfare services, from which all citizens benefit. Examples are government spending on education and health services (such as hospitals and clinics). In addition to taxes on income and spending, citizens in Trinidad and Tobago are expected to pay national insurance out of their incomes. This goes towards providing them with a pension when they are old, and sickness benefits if they fall ill and are not be able to work.

1. Why does the government need to tax its citizens?
2. On what does the government spend the taxes it receives?
3. Why is the government of Trinidad and Tobago important to the business community? How does business benefit from government activity?
4. Why is it important for rules and regulations established by the government to be clear and easy for businesses to understand?
5. What is national insurance, and why is it important to citizens?
6. Why is it essential for a country to have efficient law courts?

Objectives

After reading this chapter, you should be able to:

1. Outline the responsibilities of government in an economy 296
2. Describe how government can influence businesses to protect the environment 301
3. State the purposes of taxation 307
4. Distinguish between direct and indirect taxes 310
5. Describe the forms of assistance offered by governments to businesses 315
6. Discuss the social services provided by government 319

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

Key term

National security: securing the national defence and foreign relations of a country in order to protect the country from civil disturbance, from foreign powers, or from threats to the nationals of a country when they are abroad.

Democratically elected: a government that is chosen through a free and fair election. Citizens can vote for the candidate(s) that they want to represent them in decision-making processes.

Judiciary: the system of courts of justice in a country, and the people responsible for decision-making in those courts.

Constitution: the written and unwritten guidelines and rules outlining how a country will be governed, and who will be legitimately empowered to make decisions on behalf of others.

National insurance: a tax paid by workers and employers for funding state benefits such as pensions and sickness pay.

9.1

Outline the responsibilities of government in an economy

The government has a number of key responsibilities in an economy, as outlined below.

Security of the State

National security includes the security of citizens, the economy and key institutions of civil society, and is a duty of the government. The government puts money into both the police force and the military to ensure this security. In most Caribbean countries, there are **democratically elected** governments whose role is first and foremost to protect the institutions of democracy, including the parliamentary system, the right of citizens to vote, and the right of people to express themselves freely.

The role of the government is also to provide protection against outside interference in political affairs from other countries, and to make sure that citizens are safe and able to conduct their daily lives without threat from others. To this end, most governments will have a military defence force, as well as a police force. There is also an independent **judiciary**, whose role is to make judgments in law based on the **constitution** and laws of a particular country.

Protection and general welfare of citizens

The citizens of a country consist of everyone who makes up a particular society. A "social investment" society is one that invests in the well-being of all members of a country, whether they are old or young, male or female, and able-bodied or disabled. Governments recognise the importance of the major welfare institutions, including all levels of education, healthcare and a variety of social benefits for those in most need. The notion of "social inclusion" is that people should not be "marginalised", i.e. excluded from the benefits of a healthy and caring society. The role of the government therefore includes an obligation to identify the needs of its citizens, so that the economy can be shaped in the best way to create institutions that protect and contribute to the welfare of citizens.

An example of this can be seen when a hurricane hits a country. The government needs to plan for such an event so it is able to create shelters for everyone, to provide emergency services to get people to safety, and – when the hurricane has passed – to create the opportunities for everyone to rebuild their lives and to rebuild the economy as a community.

A key element of welfare is the provision of social security benefits paid out of a national insurance system. **National insurance** is a government-managed system whereby employees pay contributions as a percentage of their wages into a national insurance fund. This fund can then be drawn on by individuals in the form of state pensions, sickness benefit, disability benefit and unemployment benefit for those out of work.

Governments also have a duty to protect their citizens. Providing law and order is important in order for a society and economy to prosper. Governments therefore have a responsibility to protect their citizens from criminal activities that would cripple the economy and endanger lives.

The government has to plan for natural disasters such as hurricanes, so it can help its citizens when they are in need

Job security and severance benefits to workers

A healthy society is one in which everyone who wants to work and is able to work is employed. This is referred to as full employment.

Employment in some Caribbean countries is close to full employment. For example, in May 2018 the following countries had a very low unemployment rate.

Country	Unemployment rate (%)
Cuba	2
The Cayman Islands	4
Trinidad and Tobago	4.3
St Kitts and Nevis	4.5

In contrast, unemployment has been higher in Jamaica and Barbados, as illustrated by the following figures.

Year	Unemployment rate in Jamaica (%)	Unemployment rate in Barbados (%)
2007	9.26	7.45
2015	13.51	11.35
2016	13.19	9.72
2017	12.45	9.69

These figures show that the unemployment rate changes over time depending on how well the economy is doing. They also show that unemployment rates vary between countries. Government ministers responsible for employment will regularly look at these figures and try to develop policies to reduce unemployment.

Such policies might involve trying to restructure the economy, moving it towards industries in demand in the modern world, such as tourism, financial services and new technologies like renewable energy. The government can also provide grants and other incentives to new sectors

that it wants to grow. For example, the government may implement policies that seek to create a climate in which small enterprises can flourish and take on more employees.

The government itself is an employer, and it can take on more government workers (such as hospital workers, teachers, police officers, civil servants, refuse collectors and others). One reason why unemployment is so low in Cuba is because of the high numbers of people working for the government. In most other Caribbean countries, however, the government share of employment is lower. In these countries, governments seek to encourage the private sector to create employment, with policies such as lowering business taxes and providing development grants to new and existing businesses.

An important part of creating job security is to protect employees through labour laws. These guarantee minimum rights such as the right not to be dismissed unfairly from work, or having to be given a period of notice before a work contract can be terminated. Government legislation will seek to ensure that employees have binding contracts of employment that are enforceable in law. Also, to protect employees, there will be laws creating minimum **severance pay** when a worker's contract is terminated.

Key term

Severance pay: money paid to employees on the termination of their employment (the size of the payment will often depend on the length of service).

Retrenchment: where a company cuts back on its workforce, usually to reduce costs.

For example, the Employment Rights Act in Barbados includes employees' rights to:

- a statement of particulars, setting out details about a job such as the date when employment commences, the working hours, the period for which employment is expected to continue, etc.
- an itemised pay statement, setting out gross wages and any deductions
- the right not to be unfairly dismissed
- the right to a certificate of employment record when the employment is terminated
- the right to a minimum period of notice.

In Trinidad and Tobago, employees are protected by a range of laws including the Occupational Safety and Health Act, and the Employment Injury and Disability Benefits Bill, which set standards for employee health and safety in the workplace. The Employment Injury and Disability Benefits Bill provides compensation when employees are injured on the job, and the Retrenchment and Severance Benefits Act guarantees the payment of severance pay to **retrenched** employees.

Protection of the environment

The environment is everything around us; it typically refers to nature and the resources provided by nature, such as air, land and water, as well as animals, birds and fish. Key issues in the Caribbean relate to

the preservation and enhancement of coral reefs, fish stocks, wilderness areas and rainforest (such as in Guyana), clean air, fresh water resources and freedom from pollution.

The means by which a government is able to achieve environmental protection include the following.

- **Direct legislation** banning certain activities, such as the emission of certain substances into seas and rivers.
- Grants and **subsidies** to support activities and products that contribute to environmental protection, such as the production of solar panels and electric vehicles.
- Taxes on activities that harm the environment, for example taxing fuel to reduce fuel consumption, or taxing larger vehicles more heavily than smaller vehicles.
- Fines and penalties for pollution and other activities that impact negatively on the environment.
- Education: engaging with educational projects and activities that teach about the importance of the environment.

The destruction of coral reefs is one of the key environmental issues facing Caribbean governments today

Key term

Direct legislation: laws that impact directly on what a business or individual can or cannot do.

Subsidies: a government financial incentive to producers or sellers of a product to behave in a certain way.

Caribbean governments have embraced the idea of "sustainable development". This refers to economic growth patterns that do not reduce the value of environmental resources, so that economic growth and environmental development go hand in hand.

Maintenance of a safe environment for investors

In Chapter 8, we saw that a business may need to turn to outside investors if it wants to grow. Before investors decide to put their funds into a business, they will carry out research into how risky their investment may be. Investors will weigh up the size of the potential return against the risk that they are taking. More investors will invest in a country with a sound economic climate for investment. Key aspects include the following.

- Stable governments and political structures. Here, investors are looking for countries that have a stable government so there will be no sudden policy changes or upheavals that impact badly on the economy.
- Sound financial institutions. A strong central bank and financial services commission, as well as good regulation of other financial institutions, leads to a stable investing environment.
- A stable currency. The value of a currency (such as the Barbadian dollar) is the rate at which it will exchange with other currencies (such as the US dollar). Investors will be reluctant to invest in

countries where the value of the domestic currency is subject to sudden and dramatic fluctuations, because this would impact on the value of investments in that country.

- A low rate of inflation (i.e. a situation where prices are rising relatively slowly). In a predictable price-change climate, it is possible to make investment decisions where the outcomes are fairly predictable in money terms.
- A growing economy where business opportunities and the demand for products is improving.
- A government that openly welcomes investment, for example by creating enterprise zones and taxing investment returns reasonably; and which shows itself to be welcoming, for example by hosting events for the investment community.

Regulation of business activity in terms of providing clear guidelines about how to set up businesses

Foreign direct investment (FDI) occurs when a company from one country sets up plants, offices and retail outlets in another country. A number of foreign companies have invested directly in Caribbean countries. The World Investment Report in 2017 showed that Jamaica was the highest recipient of FDI in the English-speaking Caribbean. For example, in 2016 China's Jiuquan Iron & Steel company made a significant investment in purchasing bauxite mines from Alumina Partners of Jamaica.

Jamaica is particularly outgoing in encouraging foreign investment through JAMPRO, an agency of the government's ministry of industry, commerce, agriculture and fisheries. Jamaica makes it very clear to domestic and foreign investors what steps are required to set up a new enterprise in the country. This helps foreign companies that want to know what paperwork is required, and how much they will be expected to pay in taxes.

Some countries in the Caribbean are popular with overseas investors because they have a very light touch to regulation, for example by minimising the amount of paperwork required, and offering low tax regimes and other features that might encourage overseas companies.

Tip

It is important that you understand why governments intervene in an economy to influence business behaviour. Think about why consumers and employees might not be able to protect themselves adequately.

Now try these

1. The economy of Sealand is suffering from a lack of investment both by home investors and foreign investors. What policy measures could the government take to encourage investment and thus create more domestic jobs? Identify and explain three policy measures.
2. How might a national insurance scheme help to protect the welfare of all citizens in an economy? Who would pay for such a scheme?
3. Why do you think Jamaica has been so successful in attracting foreign investment in recent years?
4. **Business in action**: In this unit we discussed some aspects of the Employment Rights Act in Barbados. See if you can find the Employment Rights Act for your own country. How similar is this act to the one in Barbados?

9.2

Describe how government can influence businesses to protect the environment

The 2018 draft of the new National Environmental Policy for Trinidad and Tobago stated that "small island developing states (SIDS), such as Trinidad and Tobago, are particularly vulnerable to global-scale threats [to the environment] due to their size, geography, and open economy". Environmental issues affecting Trinidad and Tobago are similar to those in other Caribbean nations. At a national level, governments are increasingly aware of their responsibility to create a "green economy" that meets the needs of today's citizens, while also protecting the rights of future generations.

The United Nations Environment Programme (UNEP) defines a "green economy" as one that is "low carbon, resource efficient, and socially inclusive". In simple terms, this means minimising the use of energy from coal, oil and other carbon-based fuels, as well as using other resources wisely, in a way that benefits all citizens of a country (i.e. everyone is able to enjoy the benefits of a prosperous society).

Since 2001, Trinidad and Tobago has had in place an Environmental Management Act (a framework of laws governing the environment). The government's Environmental Management Authority is responsible for overseeing the management of the environment, making sure that rules are in place (and are enforced) for such matters as:

- pollution and **hazardous substances**
- air and noise pollution
- water pollution
- waste management
- hazardous substances and spills.

In addition to Trinidad and Tobago, other Caribbean governments have created a range of policies, initiatives and legislation relating to the following (and other) areas, to help protect the environment by influencing business practice.

Key term

Hazardous substances: substances that are dangerous to humans and the environment, such as toxic chemicals or explosive gases.

Green technology

The term "technology" means using knowledge for practical purposes. Green technology therefore refers to the use of knowledge for the development of products and processes that support the environment. These technologies will bring innovation and change into our daily lives, enabling us to use resources better and to pass on a better resource base to future generations. They also contribute to a reduction in waste and pollution.

Caribbean governments have sought to develop a range of green technologies. In Barbados, for example, the government plans to have

Solar panels are a type of green technology that is particularly suited to the Caribbean

around 30 per cent of its energy needs supplied by renewable sources by 2030. Barbados is already using solar power extensively as a source of household energy. Households investing in thermal (solar) water heaters are able to pay for the original outlay within two years. The government is also investigating how tidal energy (from the ocean tides) can be used to generate power.

Trinidad and Tobago and Guyana have perhaps the highest levels of biodiversity in the Caribbean area. Trinidad and Tobago is situated close to a continental land mass, while at the same time being an island. It therefore benefits from a wide range of ecosystems including mountain, forest, swamps, rivers and plains, as well as coastal areas with beaches and the sea. Since 2001, the country has had a national policy for preserving the ecology of the country, including a current plan running from 2017 to 2022 to improve fish stocks, air quality and other environmental resources. One such initiative is the Eco Park based at St Helena, where land has been reclaimed using **landfill** resources to create an environmental leisure park.

An example of green technologies serving business and the community is the Closed Looped Cycle Production in the Americas (CLCPA) programme, currently running in Trinidad and Tobago. The most common type of material disposed of in landfill sites by the residential and industrial sectors in Trinidad and Tobago is Styrofoam. The government of Trinidad and Tobago therefore launched an initiative in 2013 to find a sustainable packaging to replace the Styrofoam containers produced by the country's packaging industry. The intended outcome of this programme is to produce local, biodegradable and compostable food packaging.

In St Kitts and Nevis, what is believed to be the biggest greenhouse in the Caribbean has been built as part of an eco-park development, designed to signal the way forwards for ecotourism and rural development. The greenhouse is 24 metres tall and 14 000 square feet in area. It was built as part of a cooperative project between the governments of St Kitts and Nevis and Taiwan, and contains many different varieties of local plants, herbs and flowers, as well as tropical fruit trees. The project brings together tourism, agriculture and the use of **renewable energy**.

Key term

Landfill: disposal of waste material by burying it, especially where this involves filling in a pit and reclaiming it.

Renewable energy: energy produced from a source that is replaced rapidly by a natural resource, such as wind and wave power. Coal and oil in contrast are non-renewable.

Reforestation: the process of planting new trees to replace areas where forests have been cut down.

Reforestation

Reforestation is the process of planting new trees to replace areas where forests have been cut down for logging and charcoal production.

Haiti is one country in the world where deforestation has been severe. Charcoal is a popular form of fuel for cooking in Haiti, and this has led to the extensive stripping of wood resources in the country, to the point where there were virtually no trees left. This led to rapid soil

degradation as there were no tree roots to hold the soil together. In 2010, Haiti suffered from a devastating earthquake causing widespread loss of life, and loss of homes and buildings. Since then Haiti, has also suffered from severe hurricanes.

Haiti has been addressing the issue of deforestation by seeking to plant 50 million trees a year. The aim is to raise forest levels from an all-time low of 2 per cent of the country to 4.5 per cent by 2015, 8 to 10 per cent by 2025, and then rising to 29 per cent by 2065 (equivalent to the forest cover currently in Cuba).

The Haitian government recognised that piecemeal initiatives would not be a success, and that a government-led initiative was needed which committed 10 000 hectares to forest replantation. As part of this initiative, everyone in Haiti is seen as being responsible for reforestation and the protection of forest resources. The government has created education programmes for schools to raise awareness of the importance of forest resources. A switch to propane stoves rather than charcoal has been promoted as being a green alternative. The government has also banned the sale of charcoal in key market areas in the country.

Proper disposal of waste

The management of waste is a large industrial sector that encompasses a variety of firms. For example, in Trinidad and Tobago, the Solid Waste Management Company manages landfill sites for the disposal of business and household waste. It uses modern technology such as giant shredding machines that can shred wood, construction materials and household waste, so the waste is compacted down to a small size. Green Engineering – another company in Trinidad and Tobago – was set up originally to manage waste from the offshore oil and gas industries. Recyclage E-Waste Management provides sustainable electronics recycling of computers and other electronic goods. Waste therefore comes in many forms and sizes, and needs to be dealt with in different ways. The duty of the government and firms involved in this sector is to make sure that waste is treated and managed so that it can be reused, recycled and disposed of in a safe way.

The government grants licences to companies like the Solid Waste Management Company to manage waste in a safe, environmentally friendly and cost-effective way, in line with government guidelines and targets. The work of these companies then involves educating the public and businesses about the safe management of waste.

The government can also impose heavy fines on firms that break waste management rules, such as firms dumping waste into the sea. The government uses the tax system to penalise pollution and polluters, for example by taxing the creation and disposal of certain wastes (in particular hazardous wastes).

Key term

Environmental management: managing resources so they have a positive effect on the environment. This relates to how resources are extracted, used in manufacturing processes, and disposed of or reused.

The "polluter pays" principle of **environmental management** is that the cost of pollution should be borne by those responsible for creating waste. This can be achieved by making those responsible pay for permits to create pollution. The money collected in this way can then be used to support recycling schemes.

Examples of government initiatives that impact on businesses creating pollution in Trinidad and Tobago include:

- the licensing of waste disposal sites
- collection fees for picking up waste
- tipping fees for tipping waste at waste dumps
- waste taxes per unit of hazardous waste treated or managed
- subsidies for recycling activities.

Zoning laws

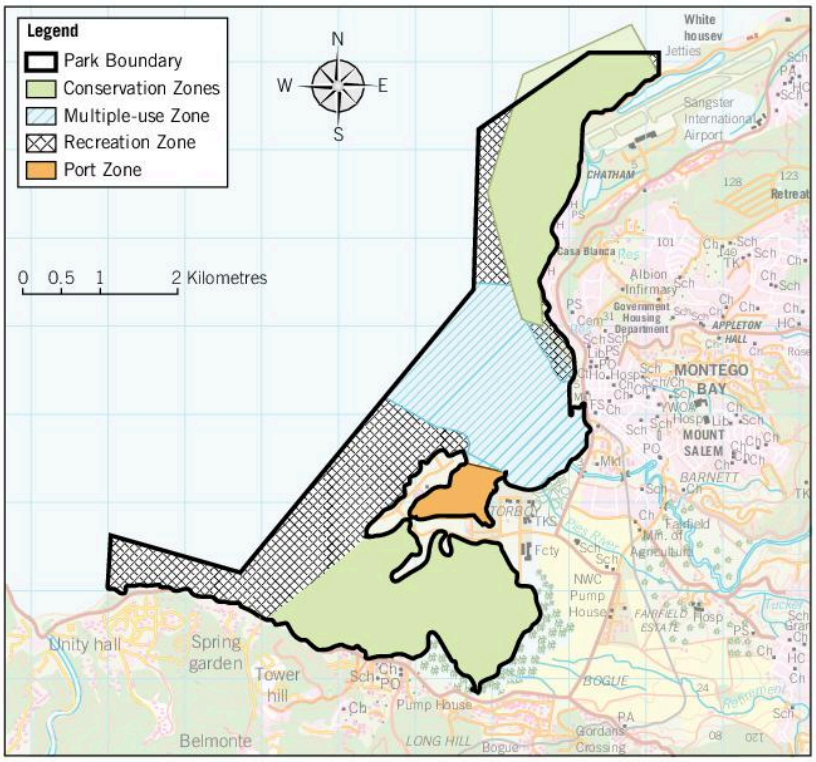
Zoning is an important way of managing environmental resources that have multiple uses and multiple users, i.e. lots of different individuals and groups use the resource for different purposes. There is also likely to be a conflict between the various resource users about how a resource should be used. This is best illustrated by an example.

The Montego Bay Marine Park is Jamaica's first marine park, and was set up in 1992. The park is a protected area of sea water and beaches on Jamaica's north coast, adjacent to the tourist city of Montego Bay. Many activities are enjoyed in the park.

According to the Montego Bay Marine Park Zoning Plan 2013–2018, plans have been created for managing the park resources to "protect sensitive marine resources from overuse and to separate conflicting human activities in these areas".

The geographical areas that make up the park have been classified based on requirements to preserve this area of natural beauty and to define the limits for what is an acceptable use of the resource. The Montego Bay Marine Park plan therefore defines where activities can take place (i.e. zoning). Four types of zone have been identified (as shown on the map below):

- conservation zone
- multiple-use zone
- recreation zone
- port zone.



The desired outcomes from this plan are to:

- protect spawning areas and nursery grounds (for fish and marine life)
- reduce damage to important habitats
- provide refuge for protected species such as turtles
- increase the abundance of species numbers, helping the food web
- increase the resilience of the reef.

The effects of zoning laws for business are to restrict the areas in which business activities can take place to specific zones (such as to limit the area in which a water-sports centre can operate). This leads to very clear guidelines as to how a business can use scarce environmental resources.

Governments need to evaluate their zoning plans on a regular basis, to assess whether zone classification needs to be altered, whether current restrictions are sufficient to protect the environment, whether greater

Tip

Make sure you can explain how governments can work with business to improve the quality of the environment. Differentiate between rules and penalties that can be applied, and incentives and encouragement that can be given.

Now try these

1. Identify three ways in which a government can protect the environment.
2. Identify two ways in which a government can encourage businesses to protect the environment.
3. What are zoning laws, and how can these be applied for conservation purposes?
4. What are the likely benefits of reforestation to business, to the wider community, and to the environment?
5. **Business in action**: Identify a green technology that has been developed in an industry in your country. Explain what the technology is, what its practical use is, and the benefits of applying it.

restrictions need to be placed on business activity, and whether more support needs to be allocated to environmental protection.

The appropriate use of technology in the production and disposal of waste

New technologies can be used to reduce the amount of waste created in the production process, and to recycle or reuse waste once it has been generated. One example of wasteful production relates to food production in the Caribbean. For example, the government of Grenada has created a "zero hunger challenge" for government and business to eliminate food losses and waste by applying new technologies. The World Food Organization has trained 500 officials (employed by the Ministry of Agriculture in a range of Caribbean countries including Grenada) to identify and measure food losses. As much as a quarter of all food produced in the Caribbean goes to waste, often after food products have been harvested (for exampe this is the case with cassava, which is an essential staple food).

The government of Grenada is therefore encouraging and supporting farmers to process and package food using new technologies, including producing pulps-and-packaging-combined products to extend the life of food and to make it easier for consumers to prepare the food. The idea is that zero losses will lead to zero hunger. Another technological innovation introduced by the government in Grenada is the development of cold chains, i.e. temperature-controlled supply chains so that there are unbroken cold chains for the storage and distribution of food supplies.

A good example of the reduction of waste is in the canning processes used in the food industry in the Caribbean. New processes have been developed to:

- reduce the quantity of plastic and metal used in the production of bottles and cans (today, a plastic bottle can be created from a very small quantity of plastic)
- alter the shape of cans and bottles so they use the minimum quantity of plastic and metal required
- use new materials that are more biodegradable, such as compostable paper packaging.

Once waste has been created, there are new ways of using that waste. For example, a number of Caribbean countries (including Barbados, Guyana, the Bahamas, and St Kitts and Nevis) have considered the possibility of developing new processes for converting landfill to energy supplies in the form of gas. However, there has been considerable opposition to this technology, particularly from waste management companies (arguing that this technology is not proven in other parts of the world), and so far little progress has been made.

In contrast, there are a number of recycling plants that have been effective. For example, Sustainable Barbados Recycling Centre has been

in operation since 2008, and provides a drop-off point for waste products on the island. The recycling centre creates a range of mulch, soil and compost products, which can be used by farmers and household vegetable growers to improve the soil quality of their gardens. The centre believes that 75 per cent of household waste is recyclable.

9.3

State the purposes of taxation

A **tax** is a compulsory financial charge imposed by a government. Taxes are levied mainly as a way of raising revenue to fund government activity. In addition, taxes are levied to discourage certain types of business behaviour, such as pollution or the creation of waste.

There are a number of reasons why governments charge taxes, in addition to the obvious one of raising revenue to fund government expenditure. These reasons are outlined below.

To curb inflation by reducing the supply of money in the economy

When people pay more in tax, they have less to spend. For example, this could happen as a result of an increase in income taxes or a rise in expenditure taxes. When people spend less, there is less money flowing around the economy and prices will start to fall.

Taxation is therefore a good way of reducing inflation in the economy by dampening down spending. When the government deliberately alters its own spending and/or the amount it takes in taxes, this is referred to as **fiscal policy**.

Raising taxes is therefore a key fiscal policy that can reduce inflation.

To remove competition from overseas in order to protect infant or fledgling industries, by taxing imports at high rates

The government can alter taxes on imports, i.e. goods and services brought in from overseas. These tariff barriers may be imposed to protect domestic businesses from lower-cost overseas competitors. There is a strong economic argument for doing this, as it protects

Key term

Tax: a compulsory financial charge imposed by a government.

Fiscal policy: deliberate alteration by the government of the relationship between how much it spends and how much it takes in taxes, in order to achieve economic goals (such as the reduction of inflation).

Key term

Infant industry: an industry that is just starting to develop in a specific country (although the industry may be better developed in other countries).

Import substitution industrialisation: a policy of trying to reduce the reliance of a country on the import of industrial products from overseas. Industrial products (such as cars, computers and washing machines) tend to be relatively expensive because they are branded. This contrasts with primary products (which tend to be unbranded). Many countries from the 1970s onwards sought to develop their own industries in order to become less dependent on expensive manufactured imports.

new firms and industries until they have developed enough to be able to compete with foreign companies. For example, where an economy is developing its own green technologies, it may tax imports of some green products to enable domestic manufacturers to catch up with technological development.

The **infant industry** argument is that some industries need to be protected initially, but once they have established themselves then tariffs can be reduced. We can see an example of this in import tariffs imposed by Barbados on imported cement. Initially, this was a measure to protect the local producer Arawak Cement, and taxes on imports were as high as 60 per cent. However, in 2015 (as a result of regular lobbying by the building industry in Barbados), the government slashed this tariff to almost 5 per cent, with the intention that Arawak needs to be competitive against overseas cement manufacturers.

To reduce unemployment by encouraging people to buy local produce, thus encouraging linkages among sectors

When the government puts taxes on imported goods, this makes these goods more expensive and hence encourages people in a country to buy more local goods, helping to create more local employment.

During the second half of the 20th century, there was a belief that the Caribbean was too reliant on the sale of primary products (such as sugar, bananas, bauxite, iron ore and crude oil). Because these products were relatively plentiful in world markets, their prices were comparatively low. In contrast, Caribbean countries were importing industrial goods from other nations such as the United States and Mexico, including automobiles, machinery, farm equipment and pharmaceuticals.

It was felt that manufacturing in the Caribbean needed to grow, and to achieve this high import tariffs on imported manufactured goods were needed. While the Caribbean has developed some manufacturing industries (particularly in Barbados, Trinidad and Tobago and Jamaica), the policy of industrialisation was not effective across the Caribbean as a whole, simply because the scale of production was much too small, and the amount of investment needed to build up these industries was much too large.

Caribbean countries such as Jamaica and Trinidad introduced a policy of **import substitution industrialisation**. They banned the import of certain goods and imposed high import tariffs on others, in order to make sure that people bought local products. For example, Jamaica's Safeguard Act outlaws the import of certain goods. Examples of goods on which high import taxes are levied or where bans on imports can

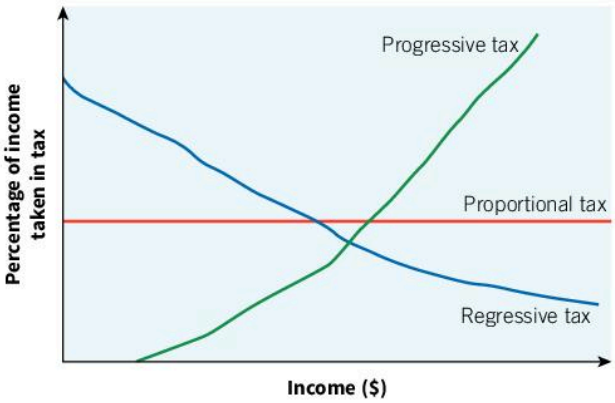
occur are honey, sugar, tomatoes, carrots, melons, lettuce and chicken. When shortages occur in these products, then high import tariffs replace outright bans.

To achieve greater equality in the distribution of wealth and income, by taxing the higher income earners

Taxes can be structured in such a way as to benefit those on low incomes. This involves low-income households paying low or no taxes and receiving benefits, which in part are paid for by the higher taxes levied on those earning higher incomes.

- A **progressive tax** is one that takes a greater proportion of income from a wealthy person than from a poor person. For example, someone earning up to $5000 a year may pay no tax. Then starting at $5000 up to $10000, earners may be required to pay 5 per cent of their income above $5000. Above $10000 and up to $20000, a taxpayer may pay 10 per cent of their income above $10000. And so on.
- A **regressive tax** is one where the poor pay a higher percentage of their income in tax than the rich. This happens when the government imposes a tax at a set rate. For example, a person may pay $30 for a licence to fish in a river. You can see that the $30 would be more of a burden in real terms for the poorer person than for the richer person.
- A **proportional tax** refers to a situation in which tax increases in proportion to the income of the taxpayer.

The graph below shows the relationship between income and percentage of income taken in tax with different tax systems.



Progressive taxes make it possible to create more welfare services for the poorer members of society, for example by using the revenue to provide disability benefits, unemployment benefits, medical benefits and other schemes that more than proportionately benefit the poor.

Key term

Progressive tax: one that takes a greater proportion of income from a wealthy person than from a poor person.

Regressive tax: one where the poor pay a higher percentage of their income in tax than the rich.

Proportional tax: when tax rises in proportion to the income of the taxpayer.

Tip

Make sure you understand the importance of taxation as a means of raising government revenue. Taxation is the single most important way in which governments raise revenue, and often when a government wants to increase its own expenditure it will raise taxes at the same time.

Now try these

1. A key purpose of levying taxes is to raise revenue for the government. Identify another important purpose of taxation and explain why you think it is important.
2. Raising taxes is a measure that can be used to try to lower inflation. What do you think would be the impact of *lowering* taxes and why?
3. Permits are a form of taxation, such as fishing permits. How might the government make permits progressive in nature?
4. Can you identify a regressive tax and explain why it is regressive?
5. **Business in action**: How does income tax work in your country? For example, are there different tax bands for people on different incomes? How could income tax in your country be made more progressive? Do you think that this might help to reduce inequalities in income? Explain your answer.

Key term

Direct taxes: taxes where the burden of the taxes and the responsibility for paying them falls on the same individual.

Tax return: a form setting out the personal details of a taxpayer. For example, an income tax return would set out an individual's pay, other forms of financial benefits, details of national insurance paid, etc.

9.4

Distinguish between direct and indirect taxes

Direct taxes

Direct taxes are taxes where the burden of the taxes and the responsibility for their payment fall on the same individual. This type of tax is usually applied to income and capital, and is paid by individuals.

For example, income tax is a direct tax. A percentage of the taxpayer's income over a certain threshold amount is taken from his or her wage packet (i.e. the tax is paid direct to the government tax authorities). The burden of the tax thus falls on the individual, because his or her income is reduced by the amount of the tax.

In the example to the left, the burden of the tax falls on Jacob, because he only has $750 left to save and spend.

Examples of direct taxes are outlined below.

Income tax: The key features of income taxes are as follows.

- They are paid directly from an earner's income. In Antigua and Barbuda, this is termed "personal income tax".

Tax returns must be returned

to the Inland Revenue by 31 March every year following the year that the income was earned.
- The burden of the tax falls on the income earner.
- They tend to be progressive. This means that higher income earners will pay a higher percentage of their income in income tax than lower income earners.
- Usually, there is a zero tax band where low income earners pay no income tax. The tax rate then increases when income earners pass designated thresholds.

Corporation tax: This is a tax on company profits. Key features of corporation tax include the following.

- They are paid directly to the government by the company that makes the profit. For example, in St Lucia, corporation tax is charged on profits gained by companies registered in St Lucia directly or indirectly, from all sources (whether inside or outside of St Lucia), and is charged at a flat rate of 30 per cent.
- The burden of the tax falls on the profit earner.
- The government can make these taxes progressive by increasing the rate of tax as profits increase.

Capital gains tax: This is a tax on increases in the value of assets (excluding inventories). Key features of capital gains tax (CGT) include the following.

- The tax is levied on the increase in the sale price of the asset compared with the price of the asset when it was purchased. Therefore the tax is levied on the increase in value of the asset.
- The most common capital gains are in the sale of shares, bonds, precious metals (such as gold) and property.
- The tax is levied directly on the persons or business making the capital gain, and the burden falls on them.
- Very few countries in the Caribbean charge capital gains tax.

Capital transfer tax: This is a tax on money and assets given by one person to another, for example in the will of someone who dies. The tax goes under other names, such as inheritance tax and death duties. Key features of capital transfer tax (CTT) include the following.

- The tax is levied on gifts of over a certain amount.
- The burden and responsibility for payment of the tax fall on the person or persons inheriting or receiving the gift.
- The tax is paid directly from the receipts of the estate of the deceased, and must be paid before the proceeds from a will are distributed.

For example, in Barbados this tax is referred to as transfer tax, and is levied at a rate of 2.5 per cent on gifts of over Bds$50 000 (although the first Bds$150 000 is exempt if a building is included).

Key term

Indirect taxes: taxes where the burden and payment of the taxes fall on different individuals.

Common external tariff (CET): a shared tax that is common to a group of countries which form a trade group, such as CARICOM (the Caribbean trading community). This tax is levied on goods coming into a country that is a member of the trade group, from a country outside the trade group.

Indirect taxes

Indirect taxes are taxes where the burden and payment of the taxes fall on different individuals. This type of tax is levied on goods and services, and is usually paid by the manufacturers or importers to the government. The manufacturers and importers will then pass on the tax to consumers in the form of higher prices.

The end payer of the tax is therefore the consumer, but the person who collects the tax and pays it to the government is the manufacturer or importer.

Indirect taxes are either specific taxes or "ad valorem" taxes. A specific tax is a certain amount levied on each good, such as a $5 tax on every T-shirt imported into a country. Ad valorem taxes are levied on the *value* of goods. For example, if an ad valorem tax is 100 percent of the value of a good, then an imported T-shirt with an import price of $50 would pay an import tax of a further $50.

Examples of indirect taxes are outlined below.

Customs duty: Customs duties are taxes levied on the import of goods into a country (and sometimes the export of goods out of a country), and are paid to the customs and excise department of the government. Key features include the following.

- The taxes are indirect because they are paid by the importer, but the importer will then pass on some of the burden in the form of higher prices to the end consumer. The burden of the tax is therefore shared between the importer and the customer, depending on how much of the tax the importer decides to pass on to customers.
- The purpose of the tax is to raise revenue for the government, and to protect domestic industries against foreign competition.
- Members of the Caribbean Community (CARICOM; see page 351) have a **common external tariff** (common tax rates) on goods entering CARICOM from outside. Some items carry high import duty rates, such as fruit and vegetables at 40 per cent, motor vehicles at 45 per cent, and T-shirts at 115 per cent.
- Some customs duties are charged on a specific basis, others on an ad valorem basis.

Excise duties are levied on goods that are deemed to have a negative effect on society, such as alcohol

Excise duty: Excise duties are taxes levied on certain goods produced within a country, and are paid to the customs and excise department. Key features include the following.

- The taxes are indirect, in that the manufacturer or seller will pass on some of the tax to the final consumer. Therefore part of the burden will fall on the manufacturer/seller and part on the consumer.
- The purposes of excise duties are to raise revenue for the government, and to discourage certain products and activities that have negative

effects on society (such as alcohol and cigarettes). For example, in Jamaica, excise duties are levied on alcoholic beverages (such as vodka, beer and brandy), as well as cigarettes, cigars, cheroots and tobacco.
- These taxes are levied on either a specific or an ad valorem basis.

Purchase tax: Purchase tax is paid by a purchaser rather than a seller of a product. Key features include the following.

- The burden of the tax falls on the purchaser of the goods.
- The seller will typically collect the tax from the purchaser and pay it over to the government.
- It is more common to find sales or consumption taxes (see below) than purchase taxes.

Stamp duty: Stamp duty is a tax levied on the legal recognition of certain documents. Most transactions involve some form of contract, so stamp duty provides a good way for the government to target certain activities as sources of revenue, or to discourage certain activities by imposing a stamp duty on them.

Key features include the following.

- Stamp duty is a tax on written documents.
- It is an indirect tax, and will typically be added to the bill of the person making a purchase that is represented by specific paperwork, such as a contract (the burden thus falls on the customer).
- Examples of documents where stamp duty applies are documents for the transfer of shares, real estate and mortgages.

For example, in Barbados, the sales of shares listed on the Barbados stock exchange are exempt from stamp duty. Stamp duty on real estate and shares in private companies is charged at Bbs$10 per Bbs$1 000, and on mortgages at Bbs$3 per Bbs$500.

Consumption tax such as GST/VAT, GCT and SCT: A consumption tax is a tax on goods that are consumed. Consumption taxes are indirect taxes, and some people believe they are a better form of tax than income tax (a direct tax), because consumers can decide whether or not to consume a particular good. For example, cigarettes are typically taxed at a high rate. Individuals can choose whether they want to smoke or not. By taxing smokers in this way, smokers are contributing to national revenues, as a price for being engaged in a form of antisocial and personally harmful behaviour.

There are a number of consumption taxes used in the Caribbean. One is GST (goods and services tax), also known as **VAT** (**value added tax**).

For example, in Barbados VAT is levied on many consumer goods at a rate of 17.5 per cent. (There are lower rates for some goods that are regarded as being more essential, zero rates for items such as school

Key term

Value added tax (VAT): also known as GST (goods and services tax), this is a consumption tax charged on a product whenever value is added at each stage of the supply chain, from initial production to point of sale.

textbooks, and higher rates for less essential goods such as cellphones.) Goods tend to go through a number of stages of production, and at each stage value is added to the good by the producer. VAT is collected in the form of a value-added tax on the value added at each stage of production.

For example, tins of tomatoes may go through a series of production steps.

- A farmer grows tomatoes and sells them to the canning factory.
- The canning factory processes and cans the tomatoes, and sells them to a supermarket.
- The supermarket displays and stores the items before selling them to the consumer.

At each stage of production, value is added to the product.

- The farmer will pay value-added tax to the government on the value added in growing the tomatoes. The farmer passes on the tax in the price charged to the canning factory.
- The canning factory pays value-added tax to the government on the value it adds in canning the tomatoes. However, it is able to claim back any tax it has paid when it purchased the tomatoes.
- The retailer pays value-added tax to the government on the value it adds in displaying the tomatoes and making them available to the final consumer. However, it is able to claim back any tax it has paid when it purchased the canned tomatoes.
- The end consumers then pay for the tomatoes when they buy them in the supermarket. The price they pay includes the value added by the tomato growers plus the value added by the canners plus the value added by the supermarket.

A consumption tax like GST is thus collected for the government by producers, as a result of the value they create in the production process, but the burden of the tax falls on the end consumer.

In Barbados, a company that purchases supplies worth Bbs$80 000 or more must register for VAT. It can then recover the input tax levied on the supplies it purchases.

GCT and SCT (general consumption tax and special consumption tax) are consumption taxes that are levied in Jamaica and some other Caribbean countries. GCT is a tax levied on most goods except those that are zero rated or which do not attract consumption taxes. SCT is a tax levied at a high rate on goods that are regarded to be socially harmful, such as tobacco products, alcoholic beverages and some petroleum products. The negative impacts of these goods include smoking-related diseases (such as lung cancer), alcohol-related diseases (such as liver disease), and poor health problems resulting from breathing in fumes from cars. In 2018, GCT stood at 16.5 per cent in the Caribbean for most goods and services.

Tip

In the value-adding process, each successive stage in the production of a product adds value to it. For example, a grower grows tomatoes, he or she sells them to a canning factory, and the canning factory sells them on to a retailer.

The price producers pay at each stage of production includes an element of tax, which is the value-added tax paid at previous stages of production (i.e. an input tax). For example, the canner buys tomatoes ready for canning, and the price includes some VAT input tax. The VAT is shown on the invoice when the canner buys the tomatoes. It can then present these invoices to the tax authorities and reclaim any input tax it pays when it purchases goods.

Key features of these consumption taxes include the following.

- The burden falls on the end purchaser of an item, i.e. the consumer, but the collection of the tax is done by producers at each stage of the production process. The tax is therefore indirect.
- The tax is typically charged at a percentage rate on the value-added or sale price of an item.
- Payers can avoid GCT and SCT by choosing to buy only products that are zero rated, or products for which these taxes do not apply.

Now try these

1. Why do you think that the lowest income earners pay zero income tax, and taxes are charged at higher rates depending on the size of the income earned? What do you think is the purpose of this type of income tax system?
2. Explain the differences between a direct and an indirect tax by comparing two different taxes (one direct and one indirect).
3. Distinguish between customs duties and excise duties.
4. What are the benefits of having corporation tax? Would you prefer to see high rates of corporation tax on big international businesses, or low rates on such businesses? Why?
5. **Business in action**: See if you can obtain a list of the main types of tax in your country, and what proportion of total tax revenue is raised through each tax. Then calculate the proportion of tax levied in your country from direct taxes, and the proportion levied from indirect taxes.

9.5

Describe the forms of assistance offered by governments to businesses

Government and business can be seen as forming a partnership in nation building, including making exports more competitive, creating employment, income and wealth, and enabling a country to be resilient in the face of imports from overseas. Government therefore supports and assists business in a number of important ways.

Lending capital and technical assistance

Governments lend capital to businesses to help them finance long-term projects, such as a project to improve agricultural productivity by developing a new type of irrigation system. Governments also provide **technical assistance**, such as specialist help in improving production processes.

Key term

Technical assistance: non-financial help provided by local or international specialists, such as the sharing of information and expertise.

In Chapter 8, we gave some examples of ways in which government agencies (such as development banks) provide loans and grants to business. The example below relates to how the government in St Kitts and Nevis is providing funds and technical assistance to farm businesses, to help them to develop.

In 2017, the St Kitts and Nevis government's Agriculture Support Fund provided loans to 230 farmers and fishermen of between $2 500 and $7 000. The aim of this support was to advance agriculture and fishing in St Kitts and Nevis. These loans were made available at a 5 per cent interest rate.

St Kitts and Nevis has also signed a partnership agreement with the government of Taiwan to provide technical assistance in carrying out a feasibility study to determine the suitability of growing certain types of exotic food crops in St Kitts and Nevis. The hoped-for outcome of this technical assistance is to enable farmers to identify new types of exotic food crops that will grow well in the country, which can then be sold domestically and for export in order to improve farm revenues.

Training and human resources development

Governments throughout the Caribbean prioritise preparing people to participate in the workforce. As a result, there are a range of government training schemes designed to prepare people for employment.

For example, in Jamaica, the New Employment Opportunities for Youth in Jamaica (NEO Jamaica) project is a joint project involving the government and the private sector, which is designed to tackle youth unemployment. In 2016, youth unemployment in Jamaica stood at 30 per cent. The project is targeted to benefit about 10 000 young people who are currently out of work in the 17–29 age bracket. Young people recruited to the scheme receive vocational training and job placements. A key aspect of the scheme is job placement, with companies focusing on in-demand occupations, so that young people can directly learn the skills needed to carry out essential jobs.

Human resources development (HRD) means creating opportunities for people at work, to help them feel fulfilled by doing things that motivate them on an individual basis. Whereas training focuses on the needs of the employer (by creating the skills required to do a job well), human resources development involves creating work that fulfils human requirements.

For example, since 2010, Barbados has had a national "Human Resource Development Strategy", focusing on both education and training, and a vision to create "an efficient, well-coordinated, effective, knowledge-led and demand-driven HRD system responsive to global

conditions and Barbadian aspirations". This is backed up by a mission that includes building human capacity "so that the potential of all Barbadians is fully realised". In Barbados, the focus is on both education and training, and on providing opportunities that are designed to meet the needs of citizens as well as to meet the needs of the employment market.

Research and information centres

Government **research** and information services play an important role in keeping business informed, and providing up-to-date research to support new developments. These centres are also of interest to the international community wishing to invest in specific Caribbean nations.

Examples of these centres include:

- The Research and Publications Department of the Jamaica Information Service. This centre provides information about government policies, programmes and institutions. It has its own website and deals with all forms of media. For example, it deals with foreign television stations, and creates images and literature that promote Jamaica.
- The Consumer Affairs Commission in Jamaica provides a range of services that support businesses and consumers in the country, including the monitoring of prices (particularly of goods and services that are essential to citizens, such as school textbooks and basic foodstuffs). The Commission also conducts customer satisfaction surveys on behalf of clients, to identify the public perception of its products.
- The Caribbean Agricultural Research and Development Institute (CARDI). This is an initiative of the English-speaking Caribbean countries, to work collaboratively to develop agricultural knowledge and practice. Members include Antigua and Barbuda, Barbados, Guyana, Jamaica, and Trinidad and Tobago, among others. The institute seeks to increase the productivity of agriculture, to diversify what is produced, and to make agriculture internationally competitive and sustainable. This should lead to increased food production and food security for the Caribbean.
- The Caribbean Institute of Medical Research (CARIMER). CARIMER is the research arm of a number of medical institutes and hospitals across the Caribbean. It carries out research into a range of complex diseases which are relevant to the Caribbean and the wider world. For example, it carries out research in to sickle cell disease, which is particularly relevant to citizens of the Caribbean. The research supports public and private medical hospitals and practices in providing the best possible healthcare for all citizens.

Key term

Research: systematic investigation or study of a particular topic in order to establish facts and reach new conclusions.

Now try these

1. Why might the government be able to provide support for businesses that is not available from private sector organisations? Give examples of the types of specialist support that the government might be able to provide.
2. Explain the difference between a grant and a loan.
3. Why might the government want to be involved in training schemes that benefit private sector employers?
4. What is the key difference between training and human resources development?
5. **Business in action**: Can you identify a business sector in your country that is currently receiving government financial support and/or technical assistance to help the sector to grow?

Research that is funded and organised by the government provides the following benefits.

- It allows research to go ahead that is too expensive to be afforded by private businesses, for example because it takes an extensive amount of time.
- It leads to collaborative research between Caribbean nations and the wider global community.
- It leads to the pooling of shared information, with mutual benefits.

Subsidies and grants

A subsidy is a sum of money granted by the government to help an industry or business, for example to keep the price of a commodity or service low.

A **grant** is a sum of money given by the government for a particular purpose, such as to enable a young entrepreneur to set up in business.

The government might subsidise businesses and industries in order to protect them from what is seen as unfair foreign competition, or to help a new industry or business to become established.

A government may also subsidise products so they become cheaper for consumers. For example, until 2017, the government of St Lucia had subsidised rice and sugar because these were regarded as essential food items for consumers. However, in 2017 the government decided to remove the subsidies because the world prices for rice and sugar had fallen considerably. The government felt that it was no longer necessary to provide these subsidies (giving the government more money to spend on other things).

The government of a country will often provide grants to new businesses. For example, in Dominica, the Ministry of Commerce, Enterprise and Small Business Development provides technical assistance and grants to small businesses under the heading of "small business grant assistance". The ministry has set up a number of rural business enterprise centres across the country, and provides grant assistance for the development of micro and small businesses nationwide.

Key term

Grant: a sum of money given by the government for a particular purpose, such as to enable a young entrepreneur to set up in business.

9.6

Discuss the social services provided by government

The government plays a key role in providing a "healthy society" focused on the **welfare** of citizens. There are a number of important **social services**, including education and healthcare, that cannot be provided adequately through private resources. Reasons for this include the cost of providing such services (they can only be funded by the combined wealth of the people who make up a society, and paid for from tax revenues), and because such services can best be provided collectively by society. There are also members of society who are not rich enough to afford basic social services (such as access to education and healthcare) without the support of the government.

An important way of making sure that all members of society have access to key resources such as education, healthcare and public transport is for the government to provide important social services, as outlined below.

Key term

Welfare: well-being; refers to the health and happiness of individuals and groups.

Social services: services that provide help with people's living conditions and financial well-being.

Healthcare

The quality of healthcare in different Caribbean countries depends on the wealth of the country, how well-organised the healthcare system is, and the government's support of the healthcare system. For example, Barbados is known to have one of the best healthcare systems in the world. Healthcare is available for all citizens and visitors to Barbados. The Queen Elizabeth Hospital has beds for over 600 patients and offers a range of specialist treatments including paediatrics. There are also eight government polyclinics providing free treatment for minor health issues, as well as five geriatric hospitals for the elderly. Prescriptions for medicines and drugs are free for children and elderly people.

Healthcare is an important social service provided by governments in the Caribbean

In Jamaica, healthcare is also free for all citizens, but there are more shortages of medicines and longer waiting times to see a trained doctor or medical officer. The ministry of health provides over 30 hospitals on the island, but many public hospitals are overcrowded. There is a scarcity of trained practitioners because of a "brain drain", whereby many trained staff have migrated to the United States, Canada and elsewhere, where salaries are typically higher. There are a number of private clinics providing better and less-crowded facilities, but these can only be afforded by those on higher incomes and those who have taken out private health insurance.

Some Caribbean countries have both poor government health services and a lack of private sector provision. One example is Haiti, where life expectancy is just over 50 years (whereas in Barbados it is nearer 70 years).

Figures produced by the World Health Organization showed the following differences in health expenditure per head of population in 2011, showing both government and private-sector spending.

Country	Government	Private	Total
Antigua and Barbuda	625.55	408.40	1060.95
The Bahamas	1157.01	1167.70	2324.71
Barbados	1024.60	425.13	1449.73
Trinidad and Tobago	740.63	629.70	1370.33
Cuba	406.98	52.84	459.82
Dominica	535.80	222.41	758.21
Dominican Republic	260.99	260.24	521.23
Grenada	333.12	360.64	693.76
St Kitts	374.86	671.49	1046.35
St Lucia	325.95	534.04	859.99
St Vincent	435.47	83.65	510.12
Suriname	287.62	215.93	503.55
Jamaica	211.97	182.95	394.92
Belize	283.39	150.17	433.56
Guyana	182.27	34.29	216.56
Haiti	40.96	60.01	100.97

National insurance

National insurance is a key element of welfare provision. It is a system of benefits for employees who pay contributions during their working lives into a national insurance fund. In many Caribbean countries it is a compulsory insurance scheme for all employees.

For example, all employees in Jamaica (between the ages of 18 and 65) must pay contributions to a national insurance fund. This applies to people who are working part time and those who are working full time. Each person is allocated a national insurance number.

Employees contribute to this scheme at 5 per cent of their wages, as well as contributing a further 1 per cent to a national health fund. Employers match the contributions of their employees, which means that 6 per cent is contributed in total by the employee and 6 per cent by the employer.

Self-employed people also contribute to the national insurance scheme. These are people who own their own businesses, such as barbers, contractors, dressmakers, farmers and importers. Self-employed people make contributions by affixing stamps to an NIS stamp card, which can be purchased from a post office.

By paying national insurance, employees and their families receive financial protection in the case of:

- loss of earnings due to an injury at work
- incapacity to work
- retirement or death of the insured.

Education

The quality of a nation's education system is a key factor in helping the country to do well economically, to be internationally competitive and to provide opportunities for advancement for its citizens. There are a number of key educational sectors including nursery education, primary education, secondary education, tertiary education and continuing education (for adults).

Barbados is an example of a Caribbean country with an international reputation for high-quality education. Key features of Barbados's education system are outlined below. There are three main levels of education: primary from the age of 5 up to the age of 11, when pupils take their common entrance exam; secondary up to the age of 16; and tertiary beyond the age of 16.

In Barbados there are:

- 4 government-funded (public) nursery schools
- 71 government-funded (public) primary schools
- 30 private primary schools
- 2 government-assisted secondary schools
- 20 private secondary schools
- 23 government-funded (public) secondary schools
- 11 assisted private schools
- 4 higher educational institutions registered with the government, including a polytechnic, a teacher training institution and a community college. There is also a campus of the University of the West Indies, to which the Barbados government contributes substantial funds.

There is therefore a mixture of public-sector schools (funded and managed by the government), private-sector schools (fee-paying private schools that need to be registered and approved) and government-assisted schools (where the government will provide some of the funding for the school alongside private fees). About 9 per cent of pupils attend private primary and secondary schools.

In the primary education sector, there are about 25 000 pupils and about 1 500 teachers, with a pupil-to-teacher ratio of around 16.7:1. In 2016, expenditure on education amounted to about 15 per cent of the government's total expenditure. Spending on education in Barbados accounts for around 6 per cent of all spending in the economy (i.e. 6 per cent of GDP).

Barbados has paid particular attention to achieving global standards for high-quality education, established by an international UNESCO agenda based on the principle of "education for all". Some of the targets that Barbados has successfully worked towards achieving include the following:

For pre-primary and primary education:

- universal access to early childhood education
- an increase in the number of students who are educationally well-rounded, confident, well-mannered, and respectful of authority and the law
- an increase in the number of students scoring above 30 per cent in the Barbados secondary schools entrance examination
- an increase in the number of students pursuing healthy lifestyles.

For secondary education:

- an increase in the number of students leaving school with proper certification
- an increase in the number of students specialising in science and technology.

For tertiary education:

- an increase in the number of students attending post-secondary and tertiary institutions.

For teachers:

- an increase in the productivity and effectiveness of teachers.

In its ongoing targets (up to 2025), Barbados is aiming towards:

- 75 per cent of all secondary school students leaving secondary school with certification
- 70 per cent of persons aged 18–30 having completed tertiary education.
- a 100 per cent literacy rate
- 100 per cent access to computers and ICT for all Barbadian households.

Roads and transportation

Transport is a key aspect of a welfare society, and effective road building is a key element of nation building. People need to have access to the benefits that society provides, such as being able to get to work, being able to transport children to school from rural areas, being able to get to hospitals and medical centres quickly, and so on.

Caribbean countries such as Barbados have an extensive network of public roads, including a number of major highways that enable rapid transportation around the country. Most of these roads are in a good condition, but there is scope for improvement and Barbados has been able to secure funding from the Inter-American Development Bank (IDB) to make improvements. The IDB is a leading source of long-term financial support for economic, social and institutional development in Latin America and the Caribbean. The responsibility for building and maintaining major roads rests with Barbados's ministry of transport and works. The ministry is responsible for the management and maintenance of roads and road safety.

In Jamaica buses run to most locations on the island. Bus stops are marked clearly with red, white and black signs, and government buses are blue with a yellow stripe along the side. There are also private buses on the island. Bus fares are deliberately kept low to make bus travel inclusive, allowing everyone in Jamaica to have access to a key form of transport to get them where they want to go.

Now try these

1. Why does a country need to have social services? What are the most important social services?
2. Why does the government need to provide social services rather than letting them be provided by the private sector?
3. What steps can a government take to improve the quality of education provided to its citizens?
4. What steps can a government take to improve the quality of healthcare provided to its citizens?
5. **Business in action**: Barbados is a good example of a country where the government plays a key role in protecting the environment, providing good healthcare and education systems, and providing an effective public transportation system. How does this compare with the provision of these services in another Caribbean country of your choosing? What do you think are the reasons for any differences? What could the governments of Barbados and other Caribbean countries do more of to improve the welfare of their citizens?

Develop your exam skills

PAPER 1

1. Which of the following is an appropriate government policy for increasing employment in an economy?
   - A Introducing measures to reduce the level of spending in an economy
   - B Encouraging the import of goods from overseas
   - C Providing incentives and grants to new businesses
   - D Reducing import taxes, leading to an influx of cheap imports

2. The notion of social inclusion involves:
   - A Taxing higher incomes at proportionately the same rate as lower incomes
   - B A welfare system that provides for the needs of all citizens
   - C Government economic decisions being given priority over private decisions
   - D Tax incentives that encourage hard work and enterprise

3. Which of the following is a reason for levying taxes?
   - A To raise revenue for the government
   - B To reduce levels of inequality in society
   - C To discourage antisocial activities
   - D To finance reduced levels of government expenditure

4. Income tax is:
   - A An indirect tax
   - B A proportional tax
   - C Levied on purchases of goods
   - D Paid by most wage earners

5. A direct tax is most likely to be levied on:
   - A Imports of goods
   - B The purchase of goods
   - C Capital gains
   - D The sale of goods

6. The government charges a higher percentage in tax on higher profits than on lower profits. This is an example of a:
   - A Progressive tax
   - B Indirect tax
   - C Proportional tax
   - D Regressive tax

7. Which of the following government actions is **least** likely to result in an increased standard of healthcare?
   - A The building of new modern hospitals
   - B Reducing expenditure per head on the health service
   - C Effective planning of healthcare provision
   - D Transferring money from taxes to healthcare spending

8. Stamp duty is a tax that is levied on:
   - A The import of certain "harmful" products
   - B Documents and important legal paperwork
   - C Postage stamps
   - D The export of goods to another country

9. Which of the following is a characteristic of a loan but not of a grant?
   - A Interest will be charged on the sum advanced
   - B The recipient will benefit from a cash advance
   - C The finance will be advanced for a specific purpose
   - D The recipient is able to spend the sum advanced

10. The burden of a tax falls on:
    - A The collector of the tax
    - B The government that receives tax revenues
    - C The final payer of the tax
    - D The tax collection authorities

PAPER 2

1. (a) Outline the following responsibilities of government:
   (i) security of the state
   (ii) maintenance of a safe environment for investors **(4 marks)**
   (b) Caribbean territories have limited natural resources and therefore have to plan land use. Discuss the following policies:
   (i) zoning
   (ii) waste disposal **(6 marks)**

2. (a) State two (2) purposes of taxation. **(2 marks)**
   (b) Differentiate between direct and indirect taxes, using examples. **(6 marks)**
   (c) Discuss the importance of the National Insurance Scheme to the workers of a country. **(3 marks)**

3. (a) Describe two (2) forms of assistance which are offered to businesses in your country. **(4 marks)**
   (b) Outline government's responsibility of regulating business activity in terms of providing clear guidelines when establishing businesses. **(2 marks)**

4. (a) Define the term "social services". **(2 marks)**
   (b) Explain how government raises revenue to finance social services. **(3 marks)**
   (c) Discuss the impact of a recession on the following social services:
   (i) healthcare
   (ii) roads **(6 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

10 Technology and the global business environment

Setting the scene

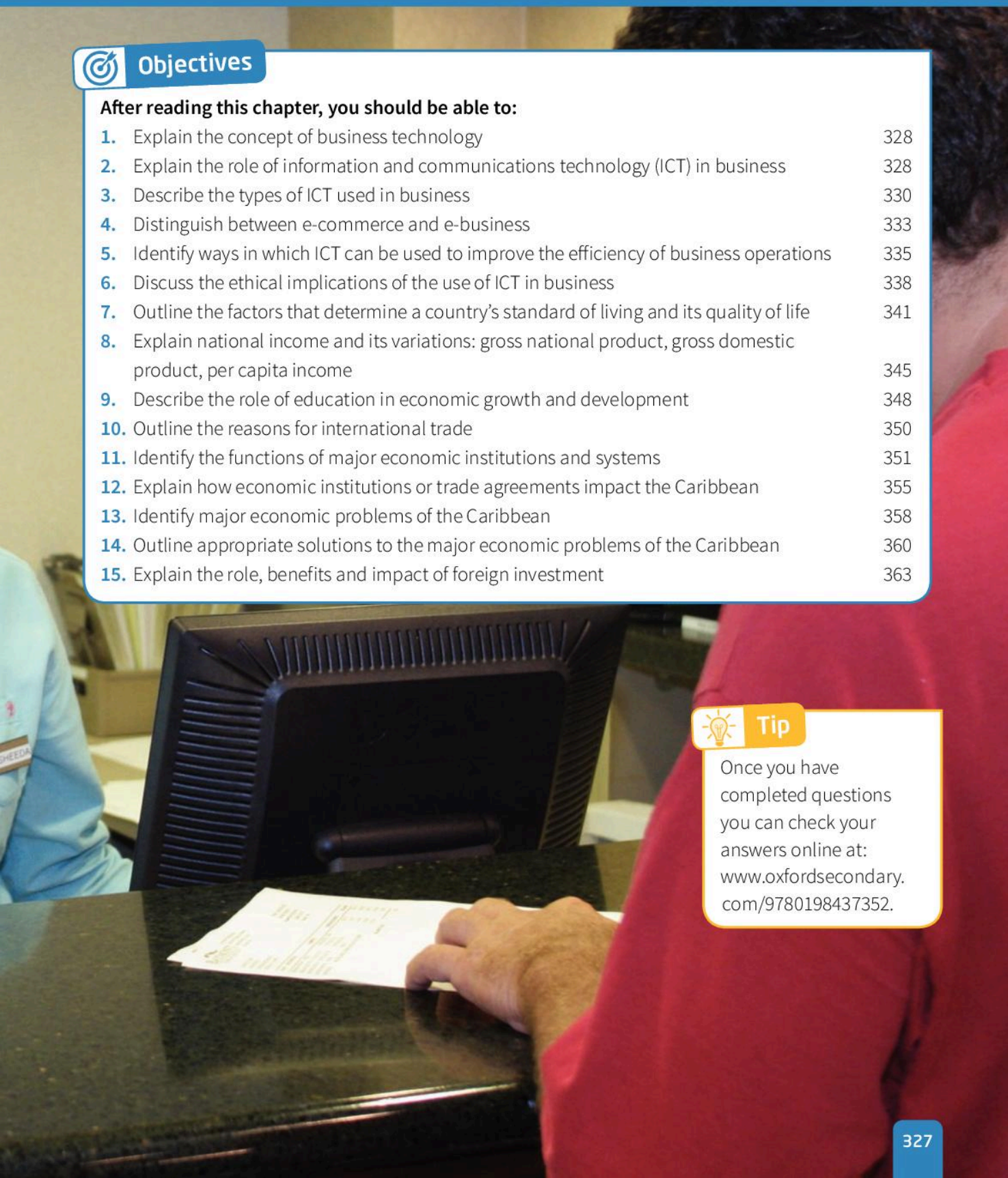
How technology helps the economy of Antigua and Barbuda to grow

Antigua and Barbuda has a population of around 94 000, and in 2017 there were estimated to be around 68 400 Insternet users. The government believes that the development of information and communications technology (ICT) is a key contributor to the development of the country, and it has therefore created a national plan to aid this. The plan includes the provision of an e-commerce portal, affordable access to computers, and online access to government information.

The benefits of the use of ICT can be illustrated by the tourism industry, which accounts for 60 per cent of all output and sales in Antigua and Barbuda. ICT is a valuable tool for viral marketing, whereby users of social media spread the word about the quality of Antigua and Barbuda's hotels and tourist facilities. Reserving hotel accommodation online makes the process quicker and easier for customers, and it is more efficient for the hotel as well. Hotels and tourism operators use electronic point of sale (EPOS) and payment management systems (PMS). These technological innovations reduce operational costs for businesses, increase convenience for customers and speed up transactions.

Hotels, shipping companies and tour operators use websites widely to attract customers, and then to interact with them during the processes of booking and paying. Antigua and Barbuda has understood clearly how ICT helps a country to deliver better solutions and to increase productivity. By continuing to be a regional ICT centre, the country can continue to grow and develop. Another example of this is the widespread use of ICT in schools, creating an ICT literate society.

1. What do you understand by the term "information and communications technology" (ICT)?
2. Give three examples of ICT that you use, and explain how businesses could use the same technology to become more efficient.
3. Do you consider the figures for access to the Internet to be high or low in Antigua? How do these figures compare with Internet use in other Caribbean countries?
4. Why do you think the government of Antigua and Barbuda has got behind the push for ICT in the country?
5. The case study shows how ICT helps the hotel and tourist trades in Antigua and Barbuda. What other industries in the Caribbean also benefit from the use of ICT?
6. How does the widespread use of ICT in an economy help people to benefit from a better standard of living? (For example, are they able to enjoy more and better goods as a result?)
7. Can you identify any ways in which the use of ICT by business might impact negatively on people in a society?



Objectives

After reading this chapter, you should be able to:

1. Explain the concept of business technology 328
2. Explain the role of information and communications technology (ICT) in business 328
3. Describe the types of ICT used in business 330
4. Distinguish between e-commerce and e-business 333
5. Identify ways in which ICT can be used to improve the efficiency of business operations 335
6. Discuss the ethical implications of the use of ICT in business 338
7. Outline the factors that determine a country's standard of living and its quality of life 341
8. Explain national income and its variations: gross national product, gross domestic product, per capita income 345
9. Describe the role of education in economic growth and development 348
10. Outline the reasons for international trade 350
11. Identify the functions of major economic institutions and systems 351
12. Explain how economic institutions or trade agreements impact the Caribbean 355
13. Identify major economic problems of the Caribbean 358
14. Outline appropriate solutions to the major economic problems of the Caribbean 360
15. Explain the role, benefits and impact of foreign investment 363

Tip

Once you have completed questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

Key term

Business technology: technology that helps to run a business and its operations. Examples include machines programmed to carry out specific tasks, online selling websites, and computer programs to help accounting and marketing functions.

Digital technology: the branch of scientific/engineering knowledge concerned with creating and making use of digital or computerised devices, methods and systems.

Digital data: data that is represented using machine language systems which can be interpreted by various technologies.

Tip

You should be able to define "business technology" and provide examples of the reasons why businesses benefit from the use of business technology. Technology enables businesses to do things faster, to carry out operations more accurately, and to reduce their costs.

10.1

Explain the concept of business technology

Business technology refers to the application of science, data, engineering and information for business purposes, such as the achievement of economic and organisational goals. The main element of technology is the idea of change, and how it can affect business and society.

What this means in simple terms is that new techniques and ideas are being used to make business processes simpler, faster, more accurate and more cost-effective in a variety of ways. For example, at a household level, people can use household gadgets to open their garage door, record messages on their phone, control the temperature of their air conditioning system, record television programmes that can be played back later, and many other things. It is not surprising therefore that business also uses new technological innovations in order to get ahead.

Now try these

1. How might a small firm benefit from business technology?
2. Identify two ways in which business technology might enable a firm importing goods from overseas to reduce its costs.
3. **Business in action**: Visit a local business and talk to the owner to find out how they use business technology.

10.2

Explain the role of information and communications technology (ICT) in business

The role of technology in business

ICT encompasses all uses of **digital technology** that exist to help individuals, businesses and organisations to use information. So ICT is concerned with the storage, retrieval, manipulation, transmission and receipt of **digital data**.

- Storage of data: before ICT, a business needed to hold a vast amount of records on paper, usually stored in filing cabinets. Today, most of this can be stored in a central digital **database** or a set of Word files.

Key term

Database: an organised collection of data that can usually (but not necessarily) be accessed from a computer.

- Retrieval of data: employees often need to retrieve records to find key information, such as a customer address or whether a bill has been paid on time.
- Manipulation of data: this involves adding to data or changing it so that it is better organised and easier to read. Records can be added to or altered quickly by making a few simple entries on a keyboard.
- Transmission or receipt of data: ICT makes it very easy to send and receive data, such as emails.

Importantly, ICT is concerned with the way these different processes can work with each other. These processes should not be seen as separate operations, but part of an integrated process whereby data is stored, retrieved, manipulated, transmitted and received.

Ways in which technology has influenced banking and commerce

Technology has been particularly important in changing the way that people interact with banks, as well as the way in which they purchase goods. This is illustrated in the examples below.

The introduction of automatic teller machines (ATMs) and automated banking machines (ABMs) has made it easier to deposit and withdraw funds, as well as to access other services without having to go into a bank. The location of ATMs in hotels, petrol stations, malls and supermarkets adds to the convenience for the customer, who can transact business without having to wait in line at a bank.

Online banking makes it easier for customers to carry out banking activities at any time, from any location

The practice of online banking enables customers to access their accounts from home and other locations using personal computers and mobile devices. This facility enables customers to check their balances from the comfort of their own homes, and permits easy and convenient payment of utility bills and other bills. Customers with more than one account can also use this facility to transfer funds from one account to another. The key benefits are that customers can manage their own accounts, can check balances and payments they have made, and can carry out their banking operations from any location (even from overseas).

Technology has also influenced buying and selling through electronic commerce (e-commerce). Individuals and businesses are now able to make business transactions via the Internet without having to visit a physical bricks-and-mortar store. E-commerce has given rise to many online stores, which allow customers to browse for products and pay for them electronically.

Now try these

1. What types of records does a school need to keep? How could this data be stored? Why might such data need to be retrieved or manipulated?
2. What types of records might a wholesaler selling goods to a retailer want to keep in a database? How could this information be collected and stored in the database?
3. Give three examples of how ICT might help a bank's customers.
4. How can the development of a website help a business to create more sales?
5. **Business in action**: Search online to find a Caribbean bookstore's website. What are the various categories of books that it offers? How easy is it to find a particular category (such as "school textbooks") and make a payment?

10.3

Describe the types of ICT used in business

Tip

Make sure you can provide examples of the types of ICT that are used in business, particularly in the fields of banking and commerce, and set out the main benefits of ICT to business.

Key term

Spreadsheet: an electronic document in which data is set out in rows and columns. The data can be used to make calculations and can be manipulated for various purposes.

ICT has been used extensively in business for a long time. Perhaps the biggest change came with the development of using the Internet as a business tool (such as by creating business websites), which really took off in the years starting from around 2000. Below we first examine some more traditional ICT tools that have been around since the 1980s, before going on to examine some more recent ones.

Traditional ICT tools

Productivity tools: Microsoft Word is a word-processing tool that enables the creation of documents. In 2014 alone, Microsoft estimated that 500 billion Word documents were created. Word has many business uses, for example to create orders, invoices and other sales documents, to produce pamphlets, and to notate important messages to individuals and teams. The use of Word enables rapid and accurate communication and widespread sharing of information, as well as the saving of documents for retrieval at a later date.

Microsoft Excel is a **spreadsheet** tool, showing a table of numbers that is set out in rows and columns. Data can be captured (inputted), displayed and manipulated (altered and moved around in the spreadsheet). The data from a Microsoft Excel spreadsheet can be turned into various diagrams, and can also be used to make calculations (such as calculating the total sales revenue), as well as forecasting likely future trends based on current and recent figures. A spreadsheet therefore enables a business to plan ahead, particularly when calculating financial figures.

Microsoft Access is a database program that helps a business to store information for reference purposes, and to create reports and analyse the data contained in the database. It is much better than a

spreadsheet at handling very large numbers of records, and it enables the business user to analyse large amounts of information.

Databases such as Access work by storing related information together, which can then create connections (relationships) between the data. A database consists of fields, records and files.

- Fields: a single type of data. For example, one of the fields entered into a database could be the name of customers.
- Records: this is one complete set of fields.
- File: this is a collection of records.

As a business student, you will be asked to make presentations to your class. To prepare your presentation, you may use presentation software such as Microsoft PowerPoint, which enables users to create virtual slideshow presentations displaying text, images and videos. Sound clips can also be inserted into presentations, and copies of the slides can be printed for use as handouts and projector transparencies. Slides can easily be edited, added to and deleted.

An alternative type of presentation tool is Prezi, which uses one large canvas instead of multiple slides. The user is able to pan and zoom to various parts of the canvas to focus on the ideas presented there. There are a number of template canvasses that can be used to start preparing the presentation, or the user can create a new canvas from scratch.

A key advantage of PowerPoint over Prezi is that it is quicker and easier to set up a presentation. However, a key advantage of Prezi over PowerPoint is that the presentation can be more visual and innovative than is possible with PowerPoint.

Graphics software enables the user to create, alter and manage two-dimensional images on a computer. Examples of graphics software include CorelDRAW, Microsoft Paint, Picasa and Adobe Photoshop. Using Photoshop, the user can alter digital images, lighten a picture, reduce (or increase) its size to fit nicely onto the page, crop an image (cut off bits of it) and much more.

Specialist applications: There are particular specialist applications that are very helpful to businesses. For accounting, there are a number of commercial accounts packages that can be used by businesses. A good example of this is QuickBooks, which is the most widely used software for small- and medium-sized companies in the United States and the Caribbean. Several varieties of QuickBooks have been made available for different types of company (such as wholesalers, retailers, manufacturers and not-for-profit businesses, among others). As well as recording payments and sales and producing sets of accounts, the package will accept business payments, manage and pay bills and keep payroll accounts of employees.

A CAD program can be used to create a 3D model of a design, which can be easily modified and shared with others

Key term

Management information system (MIS): a computer-based system that helps managers to manage their departments more efficiently. The system provides them with tools to manage, reorganise and present the information they need.

Digital communication technologies (DCTs): Digital tools that make it possible for two or more people to communicate with each other.

Tip

Make sure you can explain the specific benefits of one or more ICT-based productivity tools to a business, as well as being able to explain the more general benefits of productivity tools (for example, they enable more work to be done in a shorter period of time, enabling a reduction in waste, errors and costs).

Computer-aided design (CAD) enables designers and engineers to design new products using various interface tools with their computer, such as an electronic drawing pad. It enables very accurate design and drawing (because measurements are calculated on a computer), and images can be rotated so that products can be viewed by the designer from a variety of angles. Designs can be modified quickly and shared between teams of designers, who may be located in different parts of the world. CAD is frequently linked to computer-aided manufacturing (CAM), which means that once designs have been created, they can be programmed into a machine that automatically creates the products using instructions from the CAD program.

Management information systems (MIS) are also very useful to businesses. Managers of a company need to have detailed, relevant and up-to-date information on a number of topics in order to manage a company efficiently. This information may include production figures, wages of employees, sales figures, etc. A MIS contains features for presenting information in a visual and clear way, and is also designed so that complex data can be converted into forms where it is easy to read and understand.

Digital communication technologies

Digital communication technologies (DCTs) are digital tools that make it possible for two or more people to communicate with each other. Communications can be verbal, visual or in writing, and are often sent via satellite and fibre-optic transmission. The main vehicles for digital communication technology are the Internet and mobile communications.

The Internet: The Internet is widely used for communication purposes in modern businesses. The key uses of the Internet for business include the following:

- Buying and selling goods: the Internet enables a business to buy virtually anything online. Just as importantly, many businesses will sell goods through an online website.
- Colleting marketing data: when a business sells goods online, it is able to access a lot of information about its customers, such as where they live, how frequently they make a purchase, which combinations of products they most frequently purchase, etc. Marketing data can therefore be collected from thousands of customers to identify shopping trends and the characteristics of the business's customers. This information can then help a business to plan ahead, for example to decide what products to offer and how much to charge for them.
- Promoting the business and its products: an online website enables a business to send carefully designed messages to potential customers. Adverts can be placed on the website offering promotional techniques

such as reductions on products, buy one get one free, etc. Businesses can also promote themselves and their products through social media, for example by creating their own Facebook page, and creating advertisements and other communications that customers can "share" with their online communities of friends.

Mobile technology: M-commerce refers to the buying and selling of goods using mobile technology, typically in the form of cellphones. This is a fairly recent development, and the breakthrough came in October 2014 with the launch of Apple Pay, which is a way of paying for goods and services using a mobile device such as a smartphone. Key to the development of mobile commerce in a country is the existence of good mobile connections and safe payment systems to prevent online fraud.

Now try these

1. What type of ICT productivity tools would be of best use in the following situations?
   - (a) A very large business keeps customer records so they can be quickly accessed when dealing with these customers.
   - (b) The managing director of the company wants to make a persuasive presentation to staff.
   - (c) An accountant wants to create a table demonstrating the costs and profits of selling particular items.
   - (d) A company wishes to create an electronic system that will give all executives access to a lot of company information.
   - (e) The marketing department of a company wants to edit some of the photographs that have been taken of its products, to use in a sales brochure.
2. How might computer-aided design be used to enhance the design of products?
3. What aspects of the Internet make it particularly useful for business purposes?
4. **Business in action**: Produce an eight-slide presentation using PowerPoint to highlight the benefits of specialist ICT applications to business.

10.4

Distinguish between e-commerce and e-business

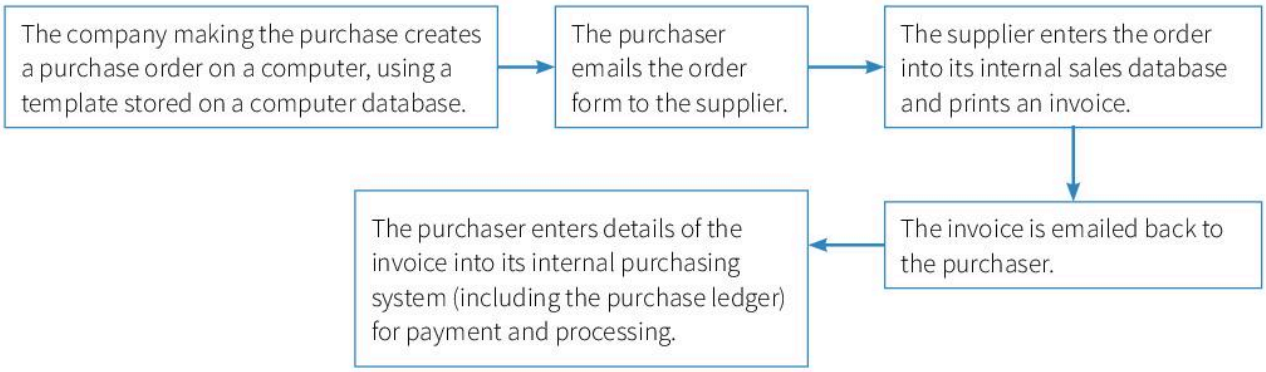
In both the case of e-commerce and e-business, the "e" stands for "electronic networks", and describes the application of **electronic network technology** (including the Internet and electronic data).

E-commerce covers outward-facing processes that touch customers, suppliers and external partners. These processes include sales, marketing, order-taking, delivery (such as planning routes using online maps), customer service, and the purchasing of raw materials and supplies. It involves new business models and the potential to gain new revenue or lose some existing revenue to new competitors.

Key term

Electronic network technology: technology that helps people to network with others, using computers and other connected devices.

Electronic data interchange (EDI) applies to the exchange of information between businesses (outward-facing processes), as well as the exchange of information within a business (inward-facing processes), whereby information is converted into a form that enables it to be transmitted electronically. This can be illustrated by taking an example from e-commerce, where one business purchases goods from another business using electronic communications.



E-business includes e-commerce, but it also covers internal processes such as the following.

- Production: linking machinery to sophisticated computers that control production operations. For example, in a bottling factory an electronic device can check that the required quantity of liquid is in a bottle, before an automatic machine puts a top onto the bottle.
- Inventory management: inventory management software is used to track inventory levels, orders, sales and deliveries. It can also order new inventories when stock falls below a pre-specified level.
- Product development: designs for new products can be created electronically using a computer and an **electronic drawing pad**. These can then be converted into prototypes, i.e. working models of products for testing.
- **Risk management**: all companies need to ensure that the amount of risk they take is in line with how much risk is acceptable to the owners and stakeholders of a company. For every risk that a business takes, there is a likelihood that the business will incur a loss, and this can be estimated mathematically (for example, there is a 1 in 10 chance that stock will not be sold). As the likelihood and impact of a risk leading to a financial loss can be calculated mathematically, it is possible to identify which business risks need to be carefully managed. Some risk-limitation measures will be obligatory (such as following health and safety laws), while other measures will be taken because calculations have shown them to be prudent.

Key term

Electronic drawing pad: also known as an electronic tablet, graphics tablet or graphics pad. It enables the user to sketch drawings using an electronic pen.

Risk management: the process of managing and controlling risks so that the risk taken is acceptable to the risk taker.

- Finance: the financial aspects of a business are particularly suited to being managed by e-business applications. Most aspects of finance are handled electronically today, including purchase and sales ledgers, invoicing, payments and the creation of statements such as the statement of financial position.
- Knowledge management: this is the understanding of information, and ways that information can be made to support a specific task or reach a decision. Such information might include sales reports, financial calculations, knowledge of what competitors are doing, market research reports, etc.
- Human resources: there are many IT applications that can support a human resources department, such as databases of employee records, payments software and online training courses.

E-business strategy is focused on improving internal processes. It aims to make improvements in efficiency and productivity, as well as saving costs.

Tip

Make sure you can distinguish between e-business and e-commerce. Whereas e-commerce focuses on interacting with customers, e-business includes a range of other ICT applications that help those in the business to be more efficient. (E-business includes e-commerce.)

10.5

Identify ways in which ICT can be used to improve the efficiency of business operations

Ways in which technology can improve business

A business is able to become more efficient and therefore gain advantages over its competitors when it uses ICT for the following reasons.

Speed and time: Operations can be carried out much quicker using ICT. For example, an order can be processed and sent to a supplier very quickly. A customer's records can be accessed simply by typing the name of the customer into a database. Documents can be sent to multiple groups simply by copying them all into a group email.

It may take a significant amount of time to set up systems, processes and databases, but once the initial preparatory time has been invested, it will enable very fast processing and very swift operations that save a lot of time.

Now try these

1. What is the difference between inward-facing and outward-facing ICT applications used by business?
2. Explain how e-commerce is outward facing while e-business is inward facing.
3. How does e-commerce enable a business to be more effective as an e-business?
4. **Business in action**: Examine the websites of two well-known Caribbean businesses, such as SM Jaleel (bottling in Trinidad), Grace Foods (foodstuffs, originating in Jamaica), or LASCO (household products, pharmaceuticals, food and drink, based in Jamaica). From the website, find out how the company uses e-commerce to make sales. How effective is the company in reaching out to customers outside the company?

Key term

Storage server: a server built for the purpose of storing (and accessing) small to large volumes of data over a shared network or via the Internet. May also be called a file server.

Viral marketing: a form of marketing whereby consumers are encouraged to share information about a company and its products over the Internet (such as through the use of social media).

Easier storage: Very large quantities of data can be stored on a computer (in its "memory") or in a **storage server**. A computer's memory can be organised around files and folders. For example, there may be a folder containing suppliers (organised by name), and in this folder there will be a file for each customer.

Rather than store data in the memory of one computer, it might make more sense to store that data in a local server (another storage device). This can then be accessed from other computers, and can store much more data than a single computer. Using a local server enables rapid uploading and downloading of data; however, it can be expensive because the hardware is costly. The server will also need to be maintained by its owner.

One alternative is to use what is called a "cloud" server, which is a remote server accessed via the Internet. For a price, the cloud service provider manages and maintains the server. The user is therefore paying a third party to manage data on their behalf. One disadvantage is that it is likely to be less secure than a local server, although users normally have private codes to access the server.

Improved sharing of information: We often talk about living in a "network economy" or "network society". A key part of this is electronic communication networks. Information can be shared rapidly by many people. One example is **viral marketing**, which is a marketing technique where ICT users pass on marketing messages to other users and websites, making the message much more visible.

Automation is commonly used in bottling plants to speed up production, as well as to make it more accurate

Automation: The term automation refers to using automatic systems to operate or control processes, methods and systems, with very little or no human intervention. For example, in an automated car plant, cars are assembled on a moving production line operated by factory robots. These robots are automated machines which carry out processes such as fitting, lifting, etc., using instructions that have been previously inputted into their operating systems. Automatic operations will be continuously monitored by computers and electronic devices to check there are no variations from preprogrammed routines. Automation takes place in the Caribbean most visibly in the food processing industries, bottling operations, mining and oil refining.

Benefits of technology to business

There are a number of benefits to businesses from the use of technology.

Reach more potential customers: The term "reach" in a business sense refers to the number of customers that can be influenced by

marketing and sales efforts, and the geographical spread of these customers. The Internet provides a number of opportunities to extend a business's reach. For example, a Caribbean manufacturer of surfboards can communicate with customers around the globe via a website. The business can build up relationships with potential customers by providing a lot of content on its website; not just details about its products, but additional content like general information on surfing in the Caribbean.

Provide better service to customers: Technology makes it possible to improve the customer experience, as businesses can interact directly and immediately with customers, answering queries and complaints. Another example of customer service comes in the form of online payment systems, where customers can simply pay for goods electronically. Technology also helps businesses to find out what customers want. Businesses are then able to provide better service and products.

Support better relationships with key partners: **Key partners** are the organisations that develop important relationships with a business. This includes other businesses, government agencies and non-consumer groups. Businesses build these partnerships in order to access more and better resources, work collaboratively on a larger scale, and work more efficiently. Examples of key partners are:

- suppliers
- other non-competing firms
- partners in a joint venture.

The Caribbean Tourism Organization (CTO) is a good example of partner relationships. This is the region's development agency for tourism, and includes Dutch, English, Spanish and French-speaking country members, as well as tourism operators and hotel chains. The aim of the CTO is to position the Caribbean as the most desirable year-round, warm-weather destination. To do this, it carries out market research to assess the demand for innovative new tourism products, services and experiences that can be offered in the Caribbean. Members of the CTO can access online reports from the CTO and key statistics about tourism trends. In this way, tourism companies work together with their key partner (the CTO) to jointly develop the Caribbean as a tourist destination.

Allow customers to better guide the business: The development of technology has given customers the power to determine how business works. When buying goods and services today, many customers research online to look for the best buys, and are more discerning about finding the companies that best fulfil their needs.

Key term

Key partners: organisations that a business works with collaboratively in a number of situations, in order to provide better goods and services, and better customer service.

Key term

Core business: the main things that a business does and produces (as opposed to activities which are simply concerned with running the business). For example, the core business of a taxi firm is delivering passengers in a safe way to their chosen destinations. (Non-core activities might include keeping records for tax purposes.)

Ethics: sets of moral principles regarding what is right or wrong behaviour.

Tip

Make sure you can illustrate the benefits of using ICT in terms of providing more up-to-date information, increasing the reach of a business, enabling rapid access to information, etc. You should then be able to demonstrate that while investment in new technology is often expensive, the cost is spread over larger outputs, which leads to lower costs per unit, and thus results in higher profits.

Most companies focus on points of contact with their customers, such as billing, payment and service calls. However, businesses can also find out far more today about the "journey" that buyers make when purchasing products. Online research enables businesses to ask customers about their experience of making a purchase, and which aspects of buying they find particularly important. The intelligent business will be guided by its customers to reorganise the journey in such a way as to best serve customer needs.

Other benefits of technology to business: The use of technology enables the streamlining of operations and reduction of costs. It improves efficiency, maximises profit, minimises waste and makes it possible to devote talent to **core business** activities. This is supported by the use of all sorts of IT applications, such as databases to store records, robotics to manage production processes, websites to manage selling, etc.

For example, most company records can be kept in a single electronic database, which can be accessed with a few taps on computer keys. This saves time in finding records, reduces the need for administrators, enables more accurate record keeping, and provides safer storage of records. This reduces cost as well as waste. Employees can therefore focus on important tasks like making goods, interacting with customers, developing new products and opportunities, etc.

Now try these

1. List three ways in which ICT might help an airline business.
2. Explain three ways in which a taxi firm that employs modern ICT might have an advantage over one using traditional methods.
3. "The use of ICT will make any business more efficient." What does this statement mean, and is it true?
4. **Business in action**: Visit the Caribbean Tourism Organization website. Identify ways in which this organisation benefits a range of tourism businesses in the Caribbean, in particular through using technology.

10.6

Discuss the ethical implications of the use of ICT in business

Ethics are sets of moral principles regarding what is right or wrong behaviour. Individuals and businesses are judged by wider society according to whether they behave in an ethical or unethical way. The development of ICT has created a host of issues surrounding ethical

business practices. The scale of the problems and issues are vast because the Internet and communications media reach so widely, and there is no central control over the use of this media (although in some countries such as China the government can control which websites are accessed and by whom).

Ethical issues concerning ICT are outlined below.

Security

Information stored in databases, in social media communication channels, and in company **intranet** systems is never 100 per cent safe. Company information can be leaked from within (when someone working for a company "leaks" information to outsiders, including the media). Company information can also be "hacked" from outside (when someone who is not authorised to do so gains access to and/or control over someone else's computer or computer networks).

One reason a person, organisation or foreign government may engage in **hacking** activities is to steal valuable trade secrets relating to production methods and new technologies. Large companies will seek to make their intranet databases inaccessible by using complex computer programming language and encrypting text, etc. However, it is very difficult to prevent hackers. A number of Caribbean companies have been hacked, including Digicel in Jamaica and the databases of some Caribbean banks.

Privacy

The records of an organisation's members and customers have traditionally been stored on paper files. Today, most of these records are held in an electronic format. For example, when you open a bank account, the bank records your name, address, telephone number, account details, amount of money in your account, and other important personal details. This information should be kept away from the public gaze as part of a policy of privacy.

A number of Caribbean countries have passed **Data Protection** Acts (such as Trinidad and Tobago in 2011, Antigua and Barbuda in 2013 and the Bahamas in 2007). These Acts are designed to protect personal data, so a company cannot disclose a person's personal details to anyone (even a close relative) without the person's permission. Key aspects of a data protection Act include the following:

- personal data must be processed fairly and lawfully
- personal data should only be collected for certain specified purposes
- personal data must be adequate, relevant and not excessive
- personal data must be accurate and where necessary kept up to date
- personal data must not be kept for longer than necessary

Key term

Intranet: a local or restricted communications network. The term "intranet" usually refers to a private network created using World Wide Web software.

Hacking: gaining unauthorised access to data in a system or computer.

Data protection: safeguarding and protecting data stored in computers.

Tip

Make sure you can define the term "ethics" and give examples of poor ethics practised by businesses when using electronic communications, such as the invasion of personal privacy, intellectual property infringements, intrusive advertising, etc.

- appropriate technical and organisational measures must be taken against unauthorised or unlawful processing of personal data, and against accidental loss, destruction of or damage to personal data.

Intellectual property infringement

There is a large volume of content on the Internet (such as information, images and films) where the copyright belongs to the person or business which created that material. To use that information requires the permission of the copyright owner.

Examples of **intellectual property** include pieces of work such as books, music (sheet music and recorded music), photographs and films, as well as designs for products.

There are many ways of infringing intellectual property rights that are illegal and unethical, for example:

- directly copying parts of a book or publication
- downloading and sharing music without paying for it
- using software on a network without acquiring the licence to use it.

Generally speaking, a business that believes its trademarks or copyrights have been infringed will take legal action through the courts. If the case is proved, the person violating the property rights will be ordered to stop the infringement (with the possibility of fines and imprisonment for failure to comply with the court's decision).

Key term

Intellectual property: creations of the mind, such as inventions, literary and artistic works (e.g. books and music), designs and symbols, and names and images used in commerce (e.g. a trademark, logo or brand image).

Impact on humans

The use of ICT by business has a range of negative impacts on humans. Some fraudsters use the Internet to con money out of people, for example by posing as a genuine trader when in fact they have nothing of value to sell. Unethical businesses can invade people's privacy with unwanted advertising. The Internet can also be used to encourage people to spend money on things they do not need or cannot afford, such as through gambling websites and websites that sell things on credit terms (which become impossible to pay back).

Distraction

The distracting effect of ICT can have a major impact on business. For example, a clerk in an accounts office may be reading about the activities of a celebrity or booking a holiday online rather than working. An employee may be secretly reading text messages on his or her cellphone rather than concentrating on an important discussion. A business therefore needs to set out clear policies and guidelines in relation to using ICT at work, for example to switch off cellphones during business meetings.

Now try these

1. Identify three key issues arising from the use of ICT by business.
2. For one of the issues identified in the question above, explain how business actions might be perceived to be unethical.
3. Who owns intellectual property? How might another individual or organisation threaten or steal this intellectual property? What action might an individual or business take when faced with intellectual property infringement?
4. **Business in action**: Identify a situation where you or your family have been exposed to unethical behaviour on the part of a business. What happened? What were the implications of the unethical practice? What did you do about it? What else could you have done?

10.7

Outline the factors that determine a country's standard of living and its quality of life

Indicators of a country's standard of living (SOL)

A country's **standard of living** is often used to measure how "developed" a country is and hence how "well off" its citizens are. Standard of living essentially refers to how much income people earn and how much spending they can do with this income. There are a number of dimensions to standard of living, and these are described below.

Level of consumption of goods and services: In most societies, the consumption of goods and services is an indicator of how well off people are. Do they own a car? If so, what type of car is it? Can they afford a foreign holiday? Can they buy an expensive pair of trainers? And so on. People are seen as having a higher standard of living when they can afford to buy more goods, and just as importantly better-quality goods.

Average disposable income of the population: A person's **disposable income** is the part of the income that is available to that person to spend or save. It is therefore the income minus any taxes and pension contributions that the person is required to pay. Taking an example, if Goldie Foxton earns $500 a week in wages and pays $100 in income tax and national insurance to the government, then her disposable income will be $400 per week.

The average disposable income of a country is the average sum that citizens have to spend once compulsory deductions have been taken from their wages. Average disposable income can be used to measure how well off people are on average in a particular country.

Level of national ownership of capital equipment: In business, the term "capital equipment" refers to the long-lasting goods that a firm acquires and uses, which are not used up (consumed) in the normal course

Key term

Standard of living (SOL): a measurement of the goods and services that an individual is able to purchase and enjoy with his or her income (including access to education and health services).

Disposable income: money left for spending after deductions such as income tax and national insurance have been taken away.

of business. For example, in a car assembly plant the capital equipment would include the production line, storage bays, vehicle transporters and other items of machinery. The more capital equipment that a business has, the greater its potential to produce more output. At a national level, the more capital equipment a country has, the better it can produce output and income for its citizens. We can illustrate this with the example of healthcare.

In a medical context, capital equipment refers to body scanners, monitors, software systems, etc. In contrast, consumables consist of rubber gloves, bandages, gowns, medicines, etc. It is by having more scanners and healthcare equipment that a country will be able to generate higher standards of welfare.

Access to modern technology: Modern technology comes from the application of new techniques and ideas to production. New technology enables increased production, fewer errors, less waste, lower costs and better-quality products.

Society, businesses and consumers will all benefit from the use of modern technology. In the Caribbean, modern technology includes the following:

- cellphones (enabling rapid communications from anywhere)
- solar panels to provide household electricity supplies
- factory robots to speed up production in mass-production factories
- commercial websites to sell products.

The use of more advanced technologies increases the opportunity to raise standards of living.

Research is vital for the development of new technologies and products that help people to enjoy a better standard of living

Level of investment in research and technology: It is likely that countries which invest the most in research and new technologies will enjoy the highest standards of living. For example, high-income countries like the United States, China and Germany are some of the biggest investors in research (although it could also be argued that they are able to invest the most because they are high-income countries). The link between research and higher standards of living is that investing in research and then developing that research into new technologies will increase productivity and create new products that help to improve people's lives.

The United States invests in a range of new technological research, such as space satellites, electric cars, stem-cell technology, etc. This research leads to new products that enable people to enjoy a better standard of living. For example, the DuPont company developed the substance Teflon, which was then used by NASA astronauts for a number of purposes, such as insulating space suits against heat loss and protecting astronauts from harmful solar radiation. Research carried out by NASA has fed back into a range of product developments, including de-icing systems for commercial aircraft and fire-resistant materials.

Indicators of quality of life (QOL)

While standards of living may be useful for making comparisons in terms of access to goods and services, they may not be so useful at measuring **quality of life**. For example, if a society creates a greater volume of goods, it is also likely to create more pollution. Quality of life is difficult to measure, but it is concerned with providing individuals with what they value, which might include access to fresh water and unpolluted seas and air.

Quality of life also depends on personal judgment. For example, while some people may want to own a car, others may consider cars to be harmful in terms of the pollution they create and the road accidents they cause. Access to the Internet may be regarded by some as beneficial, while others may see it as an intrusion on privacy. Although it is subjective, there are some specific factors that can help to indicate "quality of life" (QOL), as identified below.

Extent of security enjoyed (level of crime): In an ideal world, there would be no crime and no reason to commit crime. The reality is that in a number of countries in the Caribbean, crime levels (including violent crime and damage to property) are at unacceptable levels (as documented by successive governments in, for example, Jamaica and Trinidad and Tobago). People who live in countries with higher crime rates have a lower quality of life than those who live in countries with lower crime rates.

Availability of health, educational and recreational facilities: When people have greater access to good-quality healthcare, they are more likely to stay healthy. Similarly, society prospers when people have more opportunities to engage with education. In addition, people with access to recreational facilities (such as sports centres and parks) usually enjoy a higher quality of life.

The United Nations has created human development indicators (HDI), which are three main goals for increasing quality of life:

- standard of living as measured by GNI (gross national income): $75 000 per head
- life expectancy at birth: 85 years
- years spent in education: school enrolment targets.

These levels have not been fully attained by any country, so the actual indicators are expressed as decimal shares of the ideal. For example, 0.5 represents halfway towards the goal. The HDI score for any country is measured between 0 and 1. The highest possible score is 1, and Norway is the country that has come closest to achieving a score of 1 (in 2018 its HDI was 0.953).

Key term

Quality of life (QOL): a measurement of the benefits of living, such as access to healthcare, and leisure activities, and a long life expectancy.

Tip

Make sure you can define both "standard of living" and "quality of life", and list the indicators that could be used as suitable ways of measuring SOL and QOL.

Countries are ranked into four categories: very high, high, medium and low. Here are some of the scores of countries in the Caribbean in 2018.

Very high	HDI	High	HDI	Medium	HDI	Low	HDI
Bahamas	0.807	Trinidad and Tobago	0.784	Guyana	0.654	Haiti	0.498
Barbados	0.800	Antigua and Barbuda	0.780				

Tip

There are two measures of educational development in a country:

- the number of years of schooling that a child of school entrance age can expect to receive, and
- the average number of years of education received by people aged 25 and older.

Key term

Public utilities: a public utility is an organisation that maintains the infrastructure for a public service, such as a government electrical company providing electricity generation and cables to feed energy supplies to business and households.

Diet and nutrition: The food that people eat and the nutritional value of their diet will have a key impact on quality of life. Those who can only afford basic staples will be disadvantaged compared with those who can enjoy a variety of fresh fruit, vegetables and other foodstuffs that are rich in essential nutrients. A report by the World Bank (*Nutrition at a Glance: Haiti*, 2018) showed that 58 per cent of households in Haiti are "food insecure", 73 per cent of children aged 6–24 months old are anaemic, and more than one third of child deaths are due to poor nutrition. This leads to an increased burden on the healthcare system, as well as lower production in the economy.

Life expectancy: Life expectancy is the average age that a person can expect to live to in a given society. Life expectancy in Haiti is 61 years. In contrast, life expectancy in Barbados is 75.6 years and roughly 75 years in St Kitts and Nevis. How long someone can expect to live is an important indicator of quality of life.

Rate of infant mortality: Infant mortality is a measure of the number of infants that die during the first year after birth, per 1 000 live births. It is regarded to be a good measure of the level of public health in a society. Some selected figures for the Caribbean in 2018 (taken from the United Nations HDI) are as follows.

Country	Infant mortality rate
Haiti	50.9
Trinidad and Tobago	16.5
Jamaica	13.2
Antigua and Barbuda	5.1

Access to public utilities, such as electricity, potable water and technology: A final set of useful indicators relates to access to **public utilities**, such as sources of electricity and gas. There also need to be fresh and clean water supplies. Access to computer/Internet links and telecommunication services, such as cellphone lines with a good signal, is also an important indicator of quality of life.

Now try these

1. How do attempts to measure the quality of life differ from measuring the standard of living?
2. Can you identify a situation where the standard of living might rise in a country while the quality of life falls?
3. What are human development indicators? What might HDIs tell you about the level of development in your country?
4. **Business in action**: Find out the figures for the HDI, average infant mortality rate and average life expectancy in your own country. Contrast these figures with two of your neighbouring countries. See also if you can find any crime statistics that will help you to make a comparison between this aspect of the quality of life in your own country with two other countries in the Caribbean.

10.8

Explain national income and its variations: gross national product, gross domestic product, per capita income

It is important to be able to measure how much national income is generated in a country in a given period of time, such as during one quarter (three months) or annually (each year).

Citizens of a country produce output in the form of goods and services, and receive incomes in return. These incomes come in many forms, such as wages and salaries for providing labour, rent for providing land, and profit as a reward for enterprise and providing risk capital.

The **national statistical office** of a country will work out the total incomes earned in a country (the national income). There are a number of ways to do this. For example, the output produced by each industry in a country could be added up. However, this would not be an easy calculation, as each industry buys in inputs from other industries, so we need to avoid double counting outputs. To do this, statisticians only count the value *added* by each industry. For example, in the food processing industry, we would only count the value added to the foods through the action of processing them (as the foods themselves have already been counted as outputs of the food/agriculture industry).

Another way of calculating national income is to add up the incomes received from the factors of production (such as wages, interest, rent and profit), for example by using income tax returns. A third way of calculating national income is called the expenditure method, and involves counting the final expenditures of citizens (i.e. what they spend their incomes on). The advantage of this method is that it is fairly easy

Key term

National statistical office: a department of the government responsible for collecting, recording and making available a range of statistics relevant to progress and change in a country (such as population data, national income figures, level of government expenditure and debt, etc.).

to calculate by using the sales records of firms. There are four types of spending to take into account here:

- consumer spending (by households on goods and services)
- investment spending (by businesses on premises, machinery and equipment)
- government spending (on goods, services and investment)
- net exports (the difference between exports and imports).

Definitions of national income (NI)

There are a number of definitions of **national income**, which are important because they provide an indicator of how well an economy is doing.

- Gross national product (GNP): this refers to the total value of goods produced by the resources of a country in a particular period, regardless of whether the goods were produced locally or abroad.
- **Gross domestic product (GDP)**: this is a measure of the total value of goods produced in an economy in a particular period, such as a year. It is the most common measure of national income, and indicates how an economy is growing. Rises in GDP indicate that the value of goods being produced is increasing (and that people's incomes are rising). For example, you can see from the figures in the table below that the economy in Trinidad and Tobago contracted between 2015 and 2017 (largely as a result of falling energy prices).

Key term

National income: the total level of output (or expenditure or income) produced by a country in a given quarter or year.

Gross domestic product (GDP): the total monetary value of all the goods produced in a country (i.e. within a country's borders) in a particular period of time, e.g. one year.

	2015	2016	2017
GDP in Trinidad and Tobago ($ billion)	46.83	43.99	42.85

Tip

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

- Per capita income (PI): just as important as the total GDP, this is the GDP per head of population (i.e. per person). GDP per capita is calculated by dividing the GDP in a given year by the size of the population. As you can see from the table below, GDP per capita in Trinidad and Tobago fell between 2015 and 2017.

	2015	2016	2017
GDP per capita in Trinidad and Tobago ($)	34 400	32 000	31 300

How national income relates to growth and development

For economists, development can mean different things. Most definitions relate to the ongoing raising of living standards (what a person can afford to buy), and the improved ability of a country, through its own efforts, to produce more goods and services over time. Definitions usually include improving medical and education services.

For a country to be experiencing development and growth as measured by the standard of living, we might expect to see rising levels of GNP, GDP and GDP per capita.

In the real world, a country does not experience continuous growth in the standard of living because the world economy goes through a cycle of booms and recessions in economic activity (rises and falls in output, sales, incomes and expenditures). However, for an economy to grow and become more developed over time, we would expect to see rises in national income in the medium to long term.

However, as we mentioned earlier, quality of life is just as important as standard of living. For quality of life to be improving we would want to see:

- rising GDP per capita
- falling infant mortality rates
- increased life expectancy
- increased access to clean water, electricity, telecommunications, etc.
- better educational opportunities
- improvements to the natural environment
- falling crime rates.

The World Bank defines countries as low, middle or high income. This helps it to make decisions about lending money and supporting development projects in specific countries. Up until 2016, the World Bank considered low- and middle-income countries to be "developing". High-income countries were regarded as "developed". However, the World Bank has more recently moved away from distinguishing between "developing" and "developed" countries.

What is clear is that citizens of a country will be better off when they experience rises in both their standard of living and their quality of life.

Tip

Make sure you can define various ways of measuring national income, including GDP and GDP per head. Make sure too that you understand why SOL may rise while QOL may fall in the same period of time, for example because of increased pollution from increased business activity.

Now try these

1. The GDP per capita of Barbados rose by 0.1 per cent in 2014, 1.0 per cent in 2015, 1.6 per cent in 2016 and 0.9 per cent in 2017. What do these figures tell us about changes in the standard of living and quality of life in Barbados over these years? What additional information would you want to see to assess changes in the standard of living and quality of life more completely?
2. Under what circumstances might the standard of living in a country increase rapidly, yet the quality of life fall for many people?
3. Why might falling levels of infant mortality result in increased life expectancy in a country? How might this be achieved?
4. **Business in action**: Compare GDP per head in Trinidad and Tobago, Barbados and Guyana with GDP per head in another Caribbean country. Also examine some other indicators which relate to quality of life in your country, including life expectancy, the crime rate and the percentage of children attending school.

10.9

Describe the role of education in economic growth and development

Education is a key factor in determining the opportunities that people have in society, as well as determining how productive a society is. Access to good-quality education enables people to advance themselves and to get better jobs that require skills and knowledge. As people become more skilful and knowledgeable, they are able to help firms to produce more output, for example by working with advanced technology that is highly productive (such as a computer programmer in a high-tech business). The level of education in a country is closely linked to the rate of development of society.

One of the United Nations' human development index measures is access to knowledge, and is measured by the "education" indicator (see page 343). This consists of two elements:

- The total number of years of schooling that a child of school-entry age can expect to receive, if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life.
- The average number of years of education received in a lifetime by people aged 25 years and over.

The table below shows the expected and actual years of schooling for Caribbean countries in 2018, extracted from United Nations' Human Development Index report.

Country	Expected years of schooling (years)	Mean years of schooling (years)
The Bahamas	12.8	11.1
Barbados	15.3	10.6
Trinidad and Tobago	12.9	10.9
Antigua and Barbuda	13.2	9.8
St Kitts and Nevis	14.4	8.4
St Lucia	13.6	8.9
Jamaica	13.1	9.8
St Vincent and the Grenadines	13.3	8.6

The higher the standard of living in a country, the more the country can spend on education. The more a country spends on education, the more capable the country will be at using its resources effectively and producing higher levels of output.

Barbados places a very strong emphasis on education, and has literacy rates of over 98 per cent (one of the highest figures in the world), with the government paying the cost of education for students at primary,

secondary and tertiary levels. The benefits of education are illustrated in the table below.

	Benefits for the individual/family	Benefits for the community/society
Monetary	Higher probability of employment Greater productivity Higher earnings Reduced poverty	Higher productivity More rapid economic growth Poverty reduction Long-run development
Non-monetary	Better health Improved education and health of children/family More engaged citizenship Better choices Greater life satisfaction	Increased social mobility Better functioning institutions Higher levels of civic engagement Greater **social cohesion**

The key reasons why education leads to better economic performance include the following.

- People can be seen as a form of **human capital**. Education improves the skills and abilities of the workforce, which in turn raises productivity.
- Education improves **innovation**, because educated people are more likely to come up with new ideas and technologies.
- Education enables the spread of knowledge in society.

Each of these three factors – building human capital, developing innovation, and spreading knowledge – helps an economy to develop.

Key term

Social cohesion: the ties that bind together members of a society, such as a willingness to cooperate, share and work together.

Human capital: the concept that just as machinery makes up physical capital which enables production, so too do people make up human capital, enabling production through their skills and abilities.

Innovation: the application of new ideas and knowledge to developing new processes and products.

Now try these

1. Why is an improvement in education likely to lead to the improved economic performance of a country?
2. How might improved educational opportunities lead to an increase in both the standard of living and the quality of life in a country?
3. What indicators can be used to measure the educational development of a country?
4. **Business in action**: What are the main educational institutions in your country that contribute to the economic performance of the country?

Tip

You need to be able to identify the link between education and development. For example, increased participation in education can lead to a more capable workforce.

10.10

Outline the reasons for international trade

Key term

Foreign trade/ international trade: the buying and selling (importing and exporting) of goods and services across international frontiers.

Countries trade with each other in order to acquire goods and services that they may not be able to produce in the domestic economy. They may also trade to acquire goods more cheaply from another country. Countries export some products and services (i.e. sell them to foreigners), and import products from overseas countries (i.e. buy them from foreigners). Exporting and importing is known as **foreign trade**.

The reasons why countries trade with each other are set out below.

Reason	Example
A country may not have certain assets or natural resources (such as land, labour, capital or enterprise) to produce the goods that it needs.	Most Caribbean countries do not have natural reserves of oil for the production of petroleum. They therefore need to buy from countries that do have these resources, such as Guyana and the United States.
A country may not be able to produce the goods and services it needs in the quantities or quality required.	Barbados, Jamaica and Antigua are the main producers of Sea Island cotton, which is well known for its long, staple length, silky lustre and fine, uniform texture. Textiles made using this cotton are exported from these countries all over the world. Other countries are not able to compete with this level of quality and therefore import from Sea Island producers. However, in turn, Barbados, Jamaica and Antigua are not able to produce sufficient quantities of other types of cotton, such as cotton used in standard T-shirts, and as a result have to import these from China and elsewhere.
A country may not have the climate to grow certain foods, so has to depend on trade to acquire these foods.	Many northern European countries are too cold to grow tropical fruits such as bananas, pineapples, lychees and mangoes. They therefore have to import these goods from areas like the Caribbean. St Vincent and the Grenadines are major exporters of arrowroot (a source of flour that is popular in Europe today). There are some food products that do not grow easily in the Caribbean, including carrots, some varieties of onions, and broccoli. Countries like Trinidad and Tobago therefore import vast quantities of carrots and onions (although recently the country has been experimenting with new ways to grow these crops).
International trade allows for foreign direct investment, allowing individuals in one country to invest money in foreign companies. To be classified as foreign direct investment, the share of foreign ownership has to be equal to at least 10 per cent of the value of a company.	The Caribbean country that receives the greatest sums of foreign direct investment is Jamaica, followed by Barbados and then Trinidad and Tobago. Sectors of the economy that attract foreign direct investment are mining (such as bauxite mining in Jamaica), hotels and tourism, food processing, shipping, port facilities and air freight, as well as insurance and banking.

Now try these

1. Why do you think a country might import goods that it can produce itself?
2. Why does a country sometimes have to import raw materials and finished products that it cannot produce itself?
3. Why is it important for countries to export goods and services?
4. **Business in action**: Identify food products in your country that are imported from overseas. Then identify food products in your country that are exported overseas. How would you explain the reasons for the importing and exporting of these food products?

Tip

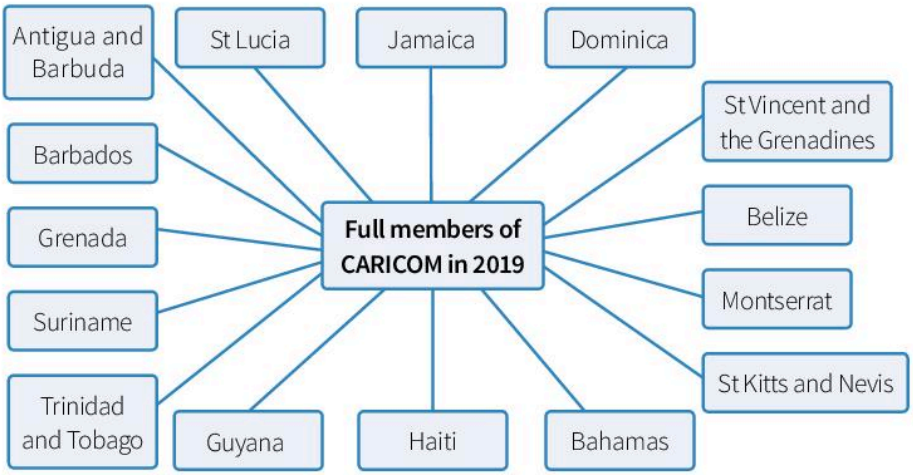
The fundamental reason why trade takes place is because some areas have resources that other areas do not. Where particular resources are limited, a country will need to import. Where resources are plentiful, then it is possible to export.

10.11

Identify the functions of major economic institutions and systems

Caribbean Community (CARICOM)

CARICOM is a community of 15 Caribbean member states and associates, which enables economic cooperation and integration between members.



CARICOM also seeks to coordinate the foreign policy of members, plan shared development of the region, and create special projects for poorer states within the community.

CARICOM has defined its countries as belonging to one of two groups:

- less developed countries (LDCs), like Haiti and St Lucia
- more developed countries (MDCs), including Barbados and Jamaica.

Within CARICOM, there are regular meetings between heads of government and between different ministers of government to create common policies, and to share ideas and support. There are

Tip

Make sure you can explain how CARICOM and the CSME enable the free movement of goods, services, agreed categories of people, and capital.

also a number of other special cooperating institutions, such as the Caribbean Institute for Meteorology & Hydrology, the Caribbean Disaster Emergency Management Agency, the Caribbean Examinations Council (arranging syllabuses and exams), and so on.

Caribbean Single Market and Economy (CSME)

An important initiative of CARICOM members was to set up the CSME, which is a **free trade** area where there are no tariff barriers between countries. For example, this means that when Jamaican goods are exported to another Caribbean country, there are no import (or export) taxes to be paid on these goods. The key elements of CSME include the following.

- Free movement of goods and services (as explained above).
- The right of establishment, which allows CARICOM-based businesses to set up in other member states without restrictions (for example allowing a Dominican business to set up in Jamaica).
- A common external tariff, which is a common import tax on imported products from non-member states (outside CARICOM).
- **Free movement of capital** and the convertibility of one currency into another. For example, a Barbadian investor can transfer money from a bank in Barbados to one in Trinidad and Tobago. The same investor would also be free to buy shares in a Jamaican company. The Barbadian dollar could also be exchanged for Jamaican dollars and other currencies used in the Caribbean.
- A common trade policy relating to internal and international trade, for example regarding which foreign countries to encourage trading with.
- Free movement (within CARICOM) of agreed categories of people, such as nurses and doctors.
- The harmonisation of business laws (i.e. bringing them together).

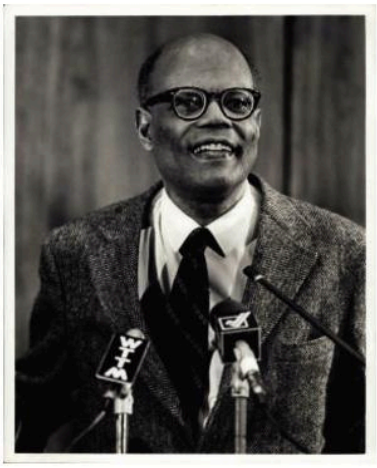
In 2017, the Caribbean Community and Cuba signed the CARICOM-Cuba Trade and Economic Cooperation Agreement to build stronger economic and political ties.

Key term

Free trade: trading between nations where there are no restrictions (such as no import taxes or limits on the quantities of goods that can be traded).

Free movement of capital: allowing finance to flow freely from one country to another without restrictions.

Regional development bank: a financial institution that provides loans and grants to businesses and governments, to help with the process of economic growth.



The celebrated St Lucian economist W Arthur Lewis became the first president of the Caribbean Development Bank

Caribbean Development Bank (CDB)

The CDB is a **regional development bank** whose purpose is to encourage and enable development within the Caribbean area by providing funds for development projects. The first president of the CDB was the Nobel Prize winning economist W Arthur Lewis (the St Lucian economist well known for his contributions to development economics).

The CDB originally received funding from three major contributors – Jamaica, Canada and the United Kingdom – but now the membership is much broader. Today, membership includes regional members (such as Barbados and the British Virgin Islands), "other regional members" (including Brazil and Venezuela), and non-regional members (including Germany, China and the UK).

International Bank for Reconstruction and Development (IBRD)

The IBRD is part of the World Bank (see below), and is an international financial institution that provides funds for development. The IBRD supports the World Bank in its mission to advance worldwide development and to eradicate poverty. The IBRD will finance projects that contribute towards this mission, such as projects designed to improve education, healthcare or infrastructure, or projects that provide greater access to food and drinking water.

The IBRD is owned by its members, and the member governments are shareholders, providing the funds and having a right to vote on how the IBRD conducts its business.

World Bank

The World Bank has a membership of 189 countries, and currently has two major objectives:

- to end extreme poverty by reducing the share of the global population that lives in extreme poverty to 3 per cent by 2030
- to promote shared prosperity, by increasing the incomes of the poorest 40 per cent of people in every country.

The World Bank is perhaps the world's largest source of funding and knowledge for developing countries. The World Bank is made up of five institutions.

- IBRD is an International Bank for Reconstruction and Development, and is described above.
- IDA offers loans and grants at very low rates of interest to the world's poorest nations (usually countries that find it difficult to borrow from other sources). Funding is provided for projects such as rebuilding roads and bridges, and training teachers.
- IFC is an international financial institution that offers investment and advisory services to encourage private-sector investment in developing countries.
- MIGA provides insurance to investors and lenders who invest in developing countries.
- ICSID is an arbitration service to help resolve disputes involving international investors, such as where they feel that their investment has not been protected properly by a national government.

International Monetary Fund (IMF)

On a global scale, there need to be generally accepted methods of making payments for international transactions. This requires confidence in the international financial system. The IMF was set up to provide supervision for the world's banking system. One of its functions is

to lend money to governments in times of financial crisis, when investors may have lost confidence in the banking systems of those countries.

Central banks work closely with the IMF to create financial stability. Countries deposit gold and their own currency with the IMF. This can then be lent to countries in crisis. Leading central banks meet regularly with important government officials and members of the IMF to create better systems of international financial management. Jamaica has been a regular borrower from the IMF since 1973, borrowing funds in order to address balance of payment issues. However, the Jamaican economy is becoming more resilient and the Jamaican government is looking to end current borrowing arrangements.

World Trade Organization (WTO)

The WTO was set up in 1995 for the purpose of setting out rules and agreements for trading between nations, to help open up trade for the benefit of all. Its main principles are:

- to pursue open borders (free trade)
- the most-favoured-nation principle: if a country reduces tariffs for one country, it will do so for all the other members of the WTO.

WTO agreements are followed by most of the world's trading nations. Through the organisation, trade ministers come together to make agreements and settle disputes. The main activities are negotiating a reduction or elimination of **import tariffs** and other barriers to trade, and agreeing rules on the conduct of trade (such as rules relating to the dumping of waste).

Key term

Import tariff: a tax on the value or number of imports entering a country.

Democratic government: a government that is elected (freely) by the people of a country.

Organization of American States (OAS)

The aims of the OAS are to strengthen the peace and security of the Western hemisphere, to promote the peaceful settlement of disputes between its member states, and to encourage cooperation in economic, social and cultural matters. Caribbean states mainly joined this organisation in the 1960s, and ever since the organisation has been active in encouraging the development of **democratic governments** in the area.

Now try these

1. Identify three organisations that provide finance for Caribbean nations, three institutions designed to encourage trade between Caribbean nations, and two organisations designed to encourage political collaboration between the Caribbean and other nations.
2. For what purposes would a Caribbean nation seek support from the World Bank and the IMF?
3. In what ways does CARICOM enable greater cooperation and advancement of the Caribbean region?
4. **Business in action**: Carry out an online search for World Trade Organization disputes by its members, and research what sorts of disputes it is involved in.

10.12

Explain how economic institutions or trade agreements impact the Caribbean

Economic institutions and trade agreements impact the Caribbean in a variety of ways, as outlined below.

Key term

Economic institution: an organisation whose purpose is to make the economy of a country (and the economies of groups of countries) work more effectively, for example by providing finance or making it easier to trade.

Caribbean Community (CARICOM)

CARICOM enables Caribbean economies to integrate their production systems and markets, to make the best use of existing resources. Access to larger regional markets enables producers in member countries to benefit from economies of scale. For example, Trinidad and Tobago is able to export bottled water on a large scale to tourist islands, as well as selling it on cruise ships. Companies that previously saw themselves as being Trinidadian, Guyanese or Jamaican may now see themselves as Caribbean, competing in a single marketplace.

The creation of CARICOM has therefore not only helped to promote the development of Caribbean-based multinationals – such as Williams Industries (building and construction) and Sandals (hotels and resorts) – it has also helped to modernise Caribbean economies in such a way as to attract overseas multinationals. CARICOM allows for the increased circulation of goods, services, agreed categories of people and capital.

Caribbean Single Market and Economy (CSME)

An objective of setting up the CSME was to enable any Caribbean country to experience the positive factors of production available in the CARICOM region. Having a free trade area is designed to lead to the production of a greater quantity and variety of goods and services to trade with other countries. Within the free trade area, goods can move freely from one member state to another, and there is a harmonisation of product standards (so that standards such as those relating to food safety or the labelling of products are the same throughout the CSME). Capital and most types of labour are also allowed to move freely within the CSME. A key argument put forward for the CSME is that individual Caribbean economies are relatively small, therefore they will benefit from joining together as a single economic entity.

There are some people who are opposed to the CSME. For example, there is some opposition in Jamaica, where trade with other CSME countries is actually under 10 per cent of the country's trade with all countries. In recent years, Jamaica has tended to export less to countries like Trinidad and Tobago and to import more, leading to a trade imbalance. One cause of this is the relatively low industrial productivity in Jamaica compared with some other countries, and this is partially blamed on inefficiencies in the education system in Jamaica.

In contrast, Barbados is more in favour of the CSME. The CSME is an important market for Barbados, and because of relatively high productivity in the country (as a result of a high-quality education system), as well as the adoption of advanced technology solutions to industrial problems, Barbados stands to reap significant benefits from its exports entering other Caribbean countries without import restrictions.

Caribbean Development Bank (CDB)

The CDB provides funds for important development projects in the Caribbean. This can be illustrated by recent water-supply development projects in St Lucia. Examples are the John Compton Dam rehabilitation scheme and the Vieux Fort Water Supply redevelopment project. Essentially, these projects involve providing secure fresh water to 100 000 residents by restoring the dam and ensuring a steady and clean water supply (leading to better public health and quality of life). The CDB financed these projects in conjunction with the Inter-American Development Bank and the European Investment Bank. The CDB provides much-needed development funds across the Caribbean.

International Bank for Reconstruction and Development (IBRB)

The work of the IDRB may best be illustrated by its current work in Haiti, where it provides funding for reconstruction and development projects. Haiti was particularly badly hit by a very large earthquake in 2010, which impacted significantly on one of the poorest economies in the world. Funding originally provided by the IDRB was for the reconstruction of facilities devastated by the earthquake, such as the rebuilding of hospitals, schools, drainage systems and electricity supplies, the provision of fresh water and a reforestation scheme.

More recently, the IBRD has been working with the government to move forwards from reconstruction to development work, for example by encouraging enterprise in the private sector in order to boost the creation of jobs and opportunities for citizens.

The IDRB therefore provides key funds for reconstruction work in the Caribbean, for example in cases of natural disasters such as hurricanes and earthquakes. Once the reconstruction work proves to be effective, funds are then provided for ongoing development (alongside further funding from other World Bank agencies).

World Bank

As we saw in the previous section, the World Bank is made up of five main institutions working to tackle world poverty through development projects. A good example of the work carried out by the World Bank is in St Lucia. At the end of 2018, the World Bank agreed to provide $20 million worth of funding to strengthen the public healthcare system

in St Lucia. This followed on from previous projects in education, combatting the impact of climate change, and energy development.

Caribbean countries are members of the World Bank, contributing funds towards its development work, as well as borrowing funds to enable **sustainable development** and the long-term alleviation of poverty.

International Monetary Fund (IMF)

The IMF provides short-term finance to countries that have problems with debt. Most countries in the Caribbean have borrowed from the IMF at some stage. One issue of borrowing from the IMF is that this organisation will ask a country to carry out structural reorganisation schemes, i.e. to alter its economic policies to reduce debt (such as by reducing government spending). Borrowing from the IMF is therefore associated with a loss of some national independence.

For example, in October 2018, the IMF approved $290 million worth of funding to be made available to Barbados for the purpose of **debt management**. About $50 million was to be released immediately, with the remainder being released on the condition that various restructuring projects were carried out in the economy over a four-year period. Difficulties in Barbados stemmed from a slow growth rate and rising trade imbalance in the period leading up to late 2018.

World Trade Organization (WTO)

The WTO seeks to encourage free trade around the globe by encouraging countries to reduce tariff barriers (including import and export taxes) and to resolve trade disputes amicably (in a friendly way).

In a 2018 meeting of the Council for Trade and Economic Development (COTED), Caribbean trade ministers emphasised their support for the rules-based, multilateral trading system that is the WTO. However, they expressed concerns that some of the discussions between WTO members (such as the United States and others) had not included listening to the concerns of small developing countries. Caribbean trade ministers stressed the importance of the WTO keeping to its principles, which include providing technical assistance and capacity building for less-developed economies. Countries like those that make up the Eastern Caribbean States need to have tariff-free access to the markets of other WTO members, as well as technical advice and support for key development projects.

Organization of American States (OAS)

The OAS is principally a political alliance of 35 countries, including countries in the Caribbean, North America and South America. Collectively, the group develops policies for dealing with issues such as terrorism, cyber crime, drug trafficking, money laundering and

Key term

Sustainable development: development that is not just a one-off process but leads to ongoing benefits over time. For example, building a good-quality dam will provide fresh water, which leads to ongoing health benefits, which also enables citizens to be more productive at work. Sustainable development will benefit future generations as well as the current generation.

Debt management: when a country is in debt, then the debt needs to be structured (managed) in a way that it can be paid off.

Tip

For each of the institutions listed in this section, you should be able to identify one project or intervention in your country involving that institution. Finding out about the work carried out by these institutions in your own country will help you to remember the purpose of these institutions for your exams.

Now try these

1. What is the key difference between the World Bank and the IMF?
2. What is the purpose of a development bank? Why does the Caribbean need development banks?
3. What is a free trade area? Who is most likely to benefit from free trade?
4. **Business in action**: Identify a project carried out by the World Bank in your country. What is the objective of this project? Which groups are most likely to benefit from the project?

other pressing issues of mutual concern. The key pillars of the OAS are democracy, human rights, security and development.

The Caribbean states who are members of the OAS would like the institution to spend more on development and security, whereas the four countries that contribute most to the OAS (the United States, Brazil, Mexico and Canada) place the emphasis more on democracy and human rights. This organisation has never had a Caribbean secretary general (the key role in the organisation). Caribbean states believe that their record on democracy and human rights is much stronger than that of many other member countries (such as some in South America), and it is time for this organisation to have new leadership and a sense of direction that truly focuses on the Caribbean's key requirements.

10.13

Identify major economic problems of the Caribbean

There are a number of economic problems faced by countries in the Caribbean which need to be tackled if people are to enjoy a better quality of life. Most of these problems are common to all countries, although their effects are felt more intensely in some countries than others. For example, whereas countries like Barbados and the Bahamas perform well in terms of HDI (see page 343) – as they both appear in the top 60 countries out of a total of 189 in the world – other countries such as Haiti (placed 160th) are much lower down the table.

Major economic problems in the Caribbean that impact on human development are outlined below.

Unemployment

People are classified as being unemployed when they would like to work and make themselves available for work but cannot get a job. For example, in July 2018 unemployment in Jamaica stood at 8.4 per cent (with a youth unemployment rate of nearly 20 per cent). The number of unemployed people amounted to about 112 000.

There are a number of causes of unemployment. A wider cause is that the world economy is not growing fast enough to provide everyone with a job, while regional causes include the decline of certain industries and an insufficient demand for products from overseas. Unemployment leads to an ineffective use of the resource base, because people who are not working are not helping a country to produce more goods.

Population density

Some areas of the Caribbean are particularly densely populated by international standards. For example, Bermuda, St Martin, Barbados and Aruba are all in the top 20 most densely populated (per square

kilometre) areas in the world. In the Caribbean, over 75 per cent of the population live in urban areas, so there is a strong pressure on resources in these places (such as pressures on the supply of water, electricity and food). There is also a pressure on the economy to create jobs in urban areas. It should be noted, however, that the growth of population in the Caribbean is much lower than in many parts of the world.

Migration

For the Caribbean, the key issue associated with **migration** is the **brain drain** effect, such as the loss of doctors and nurses to the United States, Canada and elsewhere.

Since the 1950s, emigration has been a particular problem for the Caribbean (although it reduces the pressure on population growth). Emigration from the Caribbean has slowed in recent years, but overall there continues to be net emigration from the region. Countries like Guyana and St Vincent and the Grenadines have had some of the highest levels of emigration movement in recent years. Cuba, the Dominican Republic and Haiti each have over 1 million emigrants living in the United States. One benefit of emigration is in remittances returned home from emigrants living and working abroad (see page 265).

Debt burden

A major issue facing many Caribbean countries is the level of overseas debt. Debt builds up when a country has to borrow from an international lender such as the IMF, which provides financial support when a country is facing financial difficulties. However, debt mounts up and has to be repaid with interest. In this situation, a country has to use current earnings to pay for past debts.

In recent years, Jamaica and Grenada have had debt levels of over 100 per cent of the annual national income of the country, and Jamaica has had interest payment obligations of 50 per cent of all of the revenues received by the government. Countries that have focused on producing commodities, like Trinidad and Tobago and Guyana, have had much lower debts (about 50 per cent of their annual national income), because commodity prices have been relatively high on the world markets. The debt burden severely slows down the growth of an economy, because instead of being able to invest for the future, the country has to pay back debts built up in the past.

Sourcing capital and raw materials

In order to develop home-grown industries, a country needs capital to invest in equipment and new technology, as well as the training of a workforce. On top of this, it is important to have raw materials that can be used as part of the production process. As Caribbean countries are relatively small islands with limited resources, it is difficult for them to

Key term

Population density: a measure of how many people live in a specific area (such as a square kilometre).

Migration: the movement of people, usually to find better paid work or some form of employment, and a perceived better standard of living and quality of life.

Brain drain: the loss of skilled and professional people from a country due to emigration.

Key term

Growth pole: an area of economic growth with high levels of production and the use of advanced technology.

Economic dualism: the existence of two or more industrial or economic zones in a country (or region), characterised by differing levels of capital, production, technology and other economic factors.

attract capital from overseas investors (or from home investors). It is also difficult to develop raw materials on a large scale at home.

Caribbean countries tend to have relatively undeveloped capital markets (i.e. banks that provide investment funds). Many overseas investors are happy to keep their money in offshore accounts in the Caribbean, but they are less keen to invest in Caribbean business because they see it as lacking in scale.

Economic dualism

The Caribbean is characterised by **growth poles** (prosperous and dynamic areas), which sit next to areas with high unemployment and a lack of opportunities (such as some rural areas and areas of urban deprivation). Resources tend to move from poorer areas to areas that are more dynamic. For example, labour tends to move from the country to the cities, and people tend to emigrate from areas of high unemployment to the United States. **Economic dualism** (a two-speed economy) tends to increase these differences rather than reduce them.

Now try these

1. How is a high level of unemployment likely to slow down progress in a country?
2. How might population density in some Caribbean countries lead to net emigration?
3. What is economic dualism? Identify at least one part of a Caribbean country that is growing slowly and another part that is growing more quickly.
4. **Business in action**: Find out what the current unemployment rate is in your country. How does this figure compare with the figure for youth unemployment? Why might youth unemployment be higher than general unemployment?

10.14

Outline appropriate solutions to the major economic problems of the Caribbean

Possible solutions to economic problems in the Caribbean will be those that reduce unemployment, help to encourage capital to the area, create new industries and apply up-to-date technology.

Access to foreign direct investment (FDI)

A major problem facing all Caribbean countries is a lack of a developed capital market in the Caribbean. A developed capital market is one in which there are financial institutions – known as investment banks – that provide long-term funding to business so they can grow. This is particularly necessary in situations where it will take many years for a business to develop successfully. For example, building a logistics hub in Jamaica or

Trinidad and Tobago would require investors to be willing to invest in such a way that they would not see significant returns for many years.

The lack of a developed capital market means that the Caribbean has to depend on international financial institutions (such as the World Bank or the Caribbean Development Bank) to receive long-term funding. This contrasts with countries like the United States, China, the United Kingdom and Germany, where finance can be acquired from private-sector financial institutions.

As was outlined earlier, a key issue for the Caribbean is that the scale of countries (with the exceptions of Guyana and perhaps Cuba) is much smaller than in other parts of the world. In recent years, foreign investors (such as from China, Spain and elsewhere) have been investing in hotels/leisure and tourism development, but not so much in other sectors of the economy.

The development of human resources

In any society, the quality of human resources (people) is the factor that can create the greatest competitive advantage. Most Caribbean countries have therefore invested heavily in education and training. Investment in education and training has two main benefits.

- It improves the human resources within an economy by providing educated and trained people who can make better contributions to a growing technology-based economy.
- It provides export benefits. For example, Jamaica currently has a National Export Strategy that seeks to develop the country as a regional and international centre for education, offering university degree courses, vocational training courses and English language training courses.

Development of the manufacturing, distribution and export sectors

A key issue for Caribbean economies in the past was a dependency on primary products. The St Lucian economist W Arthur Lewis saw this as one of the problems of a colonial system, as the colonies were used to provide cheap foodstuffs and raw materials (such as bananas, sugar and bauxite) to the industrial system of the Western economies. This made the Caribbean (and other economies located away from the core centres of industrial production) dependent on these markets.

In the main, primary products receive relatively low prices on international markets, whereas manufactured goods are a lot more expensive. For most of the 20th century, the Caribbean was exporting primary goods and importing manufactured goods, leading to deficits on the balance of payments for international trade. The issue of dependency is accentuated when Caribbean governments have

Now try these

1. What changes might encourage more foreign direct investment in the Caribbean? What are the current barriers to foreign direct investment that need to be overcome?
2. How can Caribbean nations go about improving the human resource capacity of the region?
3. What types of industries could Caribbean countries develop in order to create less dependency on foreign imports?
4. **Business in action**: Identify two policies of the government of your country which are targeted at combatting some of the economic problems identified above. Briefly explain the policy and give your view of whether the policy is likely to be effective.

to borrow from international financial institutions in order to cover increasing national debt.

The solution to the issue of dependency may be for a country to develop its own industries and new export sectors, so it becomes less dependent. One solution is a process of "industrialisation through invitation", whereby some **foreign multinationals** are seen as favoured investors in a country because their policies include national development strategies rather than just the removal of profits.

However, a key problem for the Caribbean is that Caribbean countries have small populations when compared with much larger countries in South and North America, which leads to a relatively small scale of industrial production. Industrial production has never really taken off in the Caribbean on a grand scale.

In the 21st century, the key industries in the Caribbean have been in the tertiary sector, with the development of tourism, offshore banking and insurance. Exports from these industries have been significant and have helped to create new dynamism in the Caribbean, coupled with the development of niche products such as Blue Mountain coffee, Sea Island cotton, the Caribbean music industry and new developments in IT.

Barbados, Trinidad and Tobago and Jamaica have also sought to position themselves as distribution hubs, operating through freight and passenger ports to enable the distribution of goods within the region and with the wider world.

Key term

Foreign multinational: a company from outside the Caribbean that operates in two or more countries.

Tip

There are a number of ways of combatting economic problems in the Caribbean that you need to be able to explain. One solution is trying to attract more FDI by making it easier for foreign investors to invest in specific countries (e.g. by providing government incentives and guarantees for investors against certain risks). The development of capital markets may also encourage foreign investment. Education and training can be improved to develop human capital.

The development of technology to generate economic activity

The development and use of modern technology is a key way of enabling economic development of a society. Embracing IT has a range of advantages, including lowering production costs and raising the profitability of business. However, in order to be successful, a country needs to have a range of factors in place to support the widespread use of ICT, including:

- government support for the use of new technologies
- high-quality education systems, which encompass learning about and using new technologies
- an ICT infrastructure in place, including access to mobile networks and to high-speed broadband connections for computers.

Each year, the Global Information Technology Report produces a Networked Readiness Index, which shows how advanced countries are in terms of their readiness to apply new ICT. Factors that are taken into consideration in the index include ICT infrastructure, the skills that people have to work with the new technologies, the business use of ICT, individual use of ICT, the affordability of ICT, mobile connectivity, and

so on. In the 2016 index, Trinidad and Tobago was in 67th place out of 139 countries for which data was collected. Jamaica was 83rd, Guyana 100th and Haiti 137th.

The development of new technologies clearly requires a strong push from the government, the provision of the latest facilities in the education system, the development of an ICT-favourable infrastructure and widespread use by business.

10.15

Explain the role, benefits and impact of foreign investment

Foreign investment occurs when capital flows from one country to another. This results from individuals or companies investing in assets or ownership stakes of a company based in another nation. For example, in 2017 the Canadian company the Deltro Group won a contract to build, own and operate a solar manufacturing plant in Cuba, including a solar farm. In this instance, Deltro, which is a leading company in renewable energy, sees a significant opportunity for investing and selling energy in Cuba.

In Jamaica, the main purpose of foreign direct investment (FDI) flowing into the country in recent years has been for the building of tourism facilities, such as the Marriott Courtyard hotel in Kingston and Moon Palace Resort in Ocho Rios. Chinese and Spanish investment has accounted for key parts of tourism investment in Jamaica and other parts of the Caribbean.

Foreign direct investment occurs when companies make **physical investments** in purchasing factories, machines and other equipment in another country. The projects described above (the Deltro plant and Jamaican hotels) are examples of FDI.

Foreign indirect investment (FII) occurs when companies or investors buy shares in companies in another country. For example, an American investor might buy shares in a Barbadian company.

The positive aspects of foreign investment

There are a number of benefits to the Caribbean stemming from FDI:

- It provides access to much-needed capital for development projects. Capital may flow into a country from overseas when it is not available from domestic sources. For example, foreigners might invest in hotels, providing the capital for the construction of high-quality hotels and supporting infrastructure (in the form of roads and energy sources to the hotel location).
- An **accumulation of capital** can lead to the wider development of infrastructure. For example, in a place where several hotels and resorts are built, there is a need for an airport, motorways, a port,

Tip

It is also important to identify new sectors and industries that can be developed, such as industries associated with distribution hubs (e.g. transport-related businesses, logistics management companies, insurance companies, etc.). New technology also makes it possible for small (and larger) businesses to penetrate international markets (provided there is the right sort of communication infrastructure to support these developments).

Key term

Physical investment: investment in real physical things, such as the purchase of machinery, factories and other buildings. Building a port, airport, bridge or road would also be defined as physical investment.

Accumulation of capital: the build-up of physical and financial investments.

etc. The accumulation of capital and the incomes that it generates help to pay for improved infrastructure.

- FDI helps to create jobs. A great attraction of FDI is that capital and infrastructure require jobs. This is particularly true in labour-intensive industries like the tourism industry.
- FDI leads to improvements in a country's balance of payments position, resulting from inflows of capital from investment, as well as inflows of spending from tourism and other new industries.

The negative aspects of foreign investment

There are a number of problems associated with increased FDI:

- Foreign companies may displace local companies. For example, large hotel chains from overseas may replace some local businesses because they can offer a "better service" due to economies of scale. However, this does not necessarily have to be the case, as the new business generated may lead to an increased demand for facilities such as hotels and restaurants, so that both domestic- and foreign-owned companies can co-exist.
- When foreign investors buy up majority shareholdings in domestic companies, then the original owners may lose decision-making powers. The new "owners" may be able to take over control of the decision-making processes.
- National governments of relatively small countries may find it difficult to stand up to very large foreign-owned multinationals.
- Foreign investment may bring with it a range of environmental issues, such as pollution and poor waste management, impacting on the natural habitat of the Caribbean. The use of resources by large foreign companies can contribute to resource shortages, as well as pollution in the seas around the Caribbean.

Tip

Make sure you can define foreign investment in a Caribbean context, showing that it involves a foreign individual, company or government moving capital into the Caribbean.

Now try these

1. Why might a foreign multinational company want to invest in the Caribbean?
2. What are the implications of foreign direct investment for Caribbean sovereignty (i.e. the right and ability of people in the Caribbean to control the decision-making processes at home)?
3. What arguments would you put forward in favour of a foreign energy company with a proven track record investing in a plant to develop new forms of energy in the Caribbean?
4. **Business in action**: Carry out an online search to find a list of how much FDI countries around the world receive. Which Caribbean countries are listed as receiving the most FDI? Why do you think these countries receive the most FDI?

Develop your exam skills

PAPER 1

1. A major benefit of online banking is that:
   - A The customer no longer needs to hold an account at a bank
   - B The customer can access their account from home
   - C The customer can withdraw cash from their bank online
   - D The customer can instruct their bank to make payments by cellphone

2. Which of the following is the most recent development in digital commerce?
   - A The development of commercial websites
   - B The use of online payment systems
   - C The development of m-commerce
   - D The growth of electronic marketing

3. Which of the following is likely to involve an intellectual property infringement?
   - A Reading a library book which has been copyrighted by the publisher
   - B Copying music from a website and then sharing it with others
   - C Gaining the intellectual property right to use a new brand name
   - D Taking a photograph of a well-known tourist attraction

4. Which of the following indicators is most frequently used to measure standard of living?
   - A National income per head of population
   - B Infant mortality rates
   - C Human development indicators
   - D Life expectancy

5. Which of the following Caribbean countries typically scores highest in terms of human development indicators?
   - A Trinidad and Tobago
   - B Jamaica
   - C Barbados
   - D St Kitts and Nevis

6. A benefit of education that has clear monetary returns is:
   - A The resultant development of a country
   - B Greater life satisfaction
   - C Increased social cohesion
   - D Improvements in civic engagement

7. Which of these statements about Caribbean economies do you find to be the most accurate?
   - A Most economies are relatively small with high urban population densities
   - B Most economies have experienced fast rates of growth and little debt
   - C Most economies are highly self-sufficient with little need to trade
   - D Most economies impose high tariff burdens on trade with each other

8. An example of foreign direct investment would be:
   - A A Jamaican hotel chain opening up a new hotel in Kingston, Jamaica
   - B A Trinidadian company receiving revenue from sales to the United States
   - C Two banks in Guyana merging together to form a larger organisation
   - D A US multinational setting up a new plant and installing equipment in Barbados

9. A key objective of the World Bank is to:
   - A Provide the highest possible return to investing members
   - B Provide short-term finance to countries to cover trading deficits
   - C Lend finance for long-term development projects to tackle poverty
   - D Lend money to private customers

10. A negative impact of foreign investment in a country is that:
    - **A** New jobs and opportunities are created in that country
    - **B** Foreign capital adds to the pool of domestic capital for development
    - **C** The injection of capital often brings with it new ideas and technologies
    - **D** The country will lose some of its own sovereignty in terms of decision-making

PAPER 2

1. **(a)** Define the term "e-commerce". **(2 marks)**
   (b) Identify two (2) types of information and communications technology (ICT) used in business. **(2 marks)**
   (c) Explain how the following technology has influenced banking and commerce:
   (i) automated teller machines (ATMs)
   (ii) Online banking **(6 marks)**
   (d) Discuss two (2) consequences of the unethical use of ICT in business. **(6 marks)**

2. **(a)** Identify two (2) functions of the following economic institutions:
   (i) World Trade Organization
   (ii) World Bank **(4 marks)**
   (b) Evaluate the impacts of the International Monetary Fund on any Caribbean territory. **(6 marks)**

3. **(a)** Outline the following factors that determine a country's quality of life:
   (i) availability of healthcare, educational facilities and recreational facilities
   (ii) diet and nutrition **(4 marks)**
   (b) Identify two (2) functions of the Caribbean Community (CARICOM). **(2 marks)**
   (c) CARICOM attempts to have functional cooperation in different areas. It has established certain institutions in order to facilitate this cooperation. Outline the impact this has on education throughout the region. **(2 marks)**
   (d) Discuss the role of education in the economic growth of a country. **(4 marks)**

4. **(a)** Define the following terms:
   (i) standard of living
   (ii) quality of life **(4 marks)**
   (b) Identify four (4) factors that determine a country's standard of living. **(4 marks)**
   (c) Differentiate between gross domestic product (GDP) and gross national product (GNP). **(4 marks)**
   (d) Discuss the impact of increasing national income on the quality of life of a country. **(3 marks)**

Tip

Once you have completed these questions you can check your answers online at: www.oxfordsecondary.com/9780198437352.

The importance of the school-based assessment (SBA)

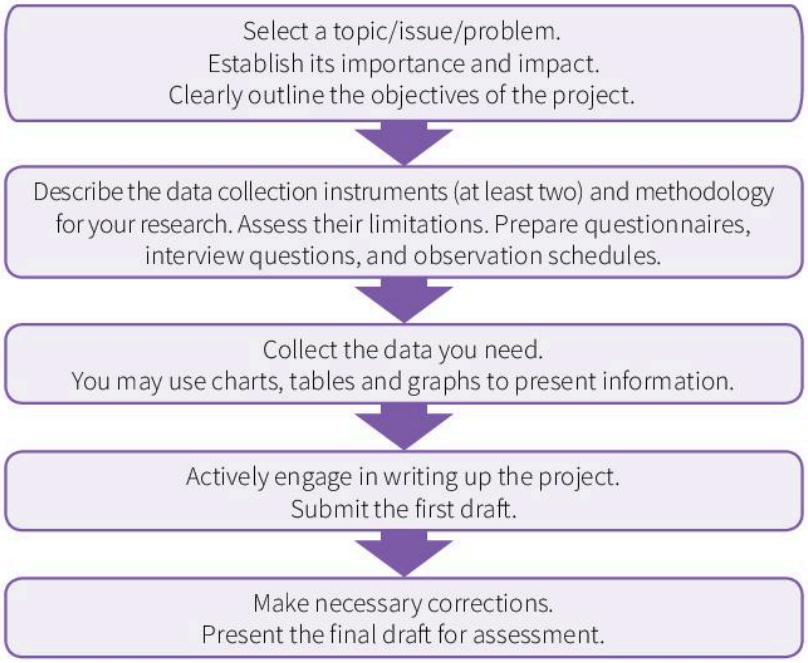
The SBA provides you with an opportunity to apply the business principles and techniques that you have learned during your course of study. The process of completing the SBA will help you to develop your confidence in this subject area. It will give you a better understanding of the purposes and functions of business in real-life situations.

The SBA is a vital component of the CSEC examination and it accounts for 20 per cent of the final mark. As well as helping to make you more self-confident and a more accomplished student in this subject, the process of completing the SBA will strengthen your critical-thinking and analytical skills, which are important tools for passing your exam and for succeeding in life more generally.

How to make sure your SBA goes well

- Make an early start, so that you have enough time to revise your work and make corrections where necessary.
- Make sure you are familiar with the detailed requirements for this aspect of your course.
- Use effective time management to ensure that you have given yourself sufficient opportunities to develop your SBA on a regular basis.
- Follow instructions from your teacher, and use feedback and suggestions for improvement immediately so that these do not get overlooked.
- Give a high priority to presentation by always taking pride in your work. Take some time to check that there are no spelling or grammatical errors.
- Make sure the finished documents closely match the requirements of the syllabus.
- Ensure that correct business terms are used throughout.

Completing your SBA: a guide to the key stages in the process



Naturally, circumstances vary, so the above is given as a suggestion to highlight key stages in the process.

Choosing your research project

When you choose your research project, remember the following.

- Check on the detailed requirements set out in the syllabus.
- Your project must lend itself to the collection of business data.
- You must demonstrate skills in the manipulation of research data (i.e. data collection, analysis and interpretation).
- You must demonstrate the application of business principles.
- You should choose a topic that you are interested in.

Overview of a research project

Your report should be presented electronically and should comprise the following sections, in the order prescribed below.

1	Table of contents	A list of the content of the research project and the page numbers on which the content can be found.
2	Topic, issue or problem	A brief, clear statement of the topic being investigated. This can be in the form of a statement or a question. It can be an everyday problem or issue that affects you, and must be focused (e.g. it must reference a specific time period, specific product or specific company).
3	Objectives of the project	The objectives should be specific and measurable, as well as directly linked to the topic, issue or problem.
4	Background	An overview of the business that is the subject of the project. A brief description of the proposed investigation and the research that will be conducted. The problem that is being investigated should be outlined, including an explanation of why the topic, issue or problem is important to the researcher and the impact of the topic, issue or problem on the environment or society.
5	Methodology and instruments	The research instrument(s), how the research will be conducted and what resources will be used. It also includes what type of research will be done (quantitative or qualitative). All primary and secondary sources should be described as well as the sampling. All decisions should be justified.
6	Presentation and analysis of data	Detailed results of the research, including what the research revealed. This will include the presentation of the information in text, as well as in pictures, charts and graphs where relevant. Data should be analysed using statistical measures, such as the mean and mode.
7	Conclusion	A statement succinctly summarising the research findings. If the problem was stated as a question, the conclusion should answer the question. All conclusions should relate to the objectives.
8	Recommendations	A statement providing realistic advice on what changes could be made. Corrective statements should improve business and/or personal activities. They should be related to the findings.
9	Bibliography	A list of books and other resources used to support the investigation.
10	Appendices	Copies of documents used in the research.

If you are taking more than one business subject

If you are taking several business subjects (two or more from Principles of Accounts, Principles of Business and Economics), you must submit only one research assignment. It should focus on a topic,

issue or problem that is relevant to all the business subjects you are studying. It should, in other words, be focused on business and not on Principles of Business, Principles of Accounts or Economics. Your teachers will share the marking. The marks for the whole assignment will total 40.

Illustration 1

Outline of an example research project

1	Table of contents	A list of contents with accurate page references.
2	Topic, issue or problem	A study to identify why some people in the local community save using sou-sou (partner/meeting turn) and why others use a savings account at a commercial bank.
3	Project objectives	Students notice that people that they know, e.g. family members and friends, use different methods of saving, and want to discover what motivates these different choices. In particular, what reasons do people have for choosing sou-sou and what reasons do people have for choosing a savings account with a commercial bank?
4	Background	An outline of what is meant by saving and how this differs from investment, and the reasons for saving (e.g. to defer current spending in order to be able to spend a larger sum in the future, or protection against unforeseen circumstances). This will be followed by an outline of the two different methods of saving, including some background information on the origins of the sou-sou system in the Caribbean (e.g. it probably originated in West Africa before the development of formal banking systems and became a key way for the Caribbean community around the world to save). A brief explanation of why this research project is important and how the insight developed will be helpful to the local community (e.g. it will help local people compare two different methods of saving and decide which is the best option for them).
5	Methodology and instruments	The research instruments are identified (e.g. direct interviews with a sample of ten savers and a questionnaire completed by a wider sample of savers) and choices justified (e.g. interviews to collect qualitative data, enabling the researcher to probe the thoughts and feelings of the interviewees, and questionnaires to collect quantitative data, enabling the researcher to measure things). All decisions regarding the research instruments should be explained, including the choice of questions and how participants were selected (e.g. by random sample or by structured sample etc.)
6	Presentation and analysis of data	A description of the findings of the research. Which method of saving was used, by whom and for what purposes? What did respondents perceive to be the main benefits of choosing one method of saving over the other? Did some respondents use both methods? Did the amount saved have an impact on the saving method chosen? Are there other factors that seem to have had an impact on the saving method chosen (e.g. age of saver, employment of saver etc.) The questionnaire findings can be presented as graphs, each graph accompanied by an explanation showing an understanding of what the findings reveal. Limitations of the data collection methodology and the data collected (e.g. it was not possible to carry out all the intended interviews, some of the questions seem to have been misunderstood, additional questions would have enabled a deeper understanding and led to a clearer analysis and more robust conclusions).
7	Conclusion	It is very important that the conclusion refers back to the research objectives. For example, your conclusion could use the data collected to answer the following questions suggested by the project objectives: • Why do some people in the local community prefer to save by sou-sou and some through a savings account? • Which method appears to be more popular and why? • Do people use both methods of saving? • Is there room in the market for sou-sou and for savings accounts? • Is one method becoming more popular at the expense of the other?

8	Recommendations	Recommendations must be realistic and based on the findings of the research. Recommendations could include guidance on when sou-sou and when a savings account is the most appropriate method of saving. Recommendations could also include suggestions for improving the research (e.g. introduce additional research instruments such as focus groups of savers, or alter the sample in order to get a more accurate picture of the way people save etc.)
9	Bibliography	A list of books, other publications and online resources used in the research.
10	Appendices	Appendices should provide supporting materials for the research project. For example, the appendices could include additional information setting out the background to sou-sou and savings accounts. The appendices should also include a copy of the original questionnaire and the interview schedule, the completed questionnaires and the transcripts of the interviews. Additional graphs could also be included in the appendices.

Notes:

- The project should not exceed 1 000 words (excluding appendices); a mark penalty of 10% of the score achieved is applied where this maximum is exceeded.
- The SBA is business based and not subject based. The SBAs no longer take a Principles of Accounts, Principles of Business or Economics slant. You should investigate topics that affect and impact business as a whole, and not from any particular perspective.

Some advice on graphs

- Remember that a graph conveys a story, so use it to highlight a vital message that is of essential importance to the project. Choose something that has real impact.
- Graphs can be produced electronically or manually.
- Choose the type of graph best suited to conveying your message, such as a column or bar chart for comparison or differentiation, a pie chart to convey contribution or shares of a whole, or an XY scatter graph with smooth lines to present demand and supply curves.
- Check that the graph is correctly and fully labelled. This includes giving the graph a name and labelling the axes.
- Complete your graph with some discussion or explanation of what is depicted. Refer to the graph by name in your discussion or explanation.

Glossary

Acceptance: the act of agreeing to take up (accept) an offer. A situation where the offeree agrees to the terms and conditions set out by the offeror in the contract.

Acceptor: the person to whom an offer has been made, and who has accepted the offer.

Accumulation of capital: the build-up of physical and financial investments.

Advertising: a means of communicating with the buyers or users of a product; any form of paid, formal communication about goods or services.

Advice note: a document (often a pro forma invoice) advising the buyer when the goods will be supplied, in what quantities, and at what prices.

After-sales service: all of the care that a business provides a customer after the sale has been made.

Air waybill: the air-transport equivalent of a bill of lading.

Angel investors: wealthy individuals who provide funding for an existing company in return for a share of the equity of that business.

Appraisal: a formal evaluation of an employee's performance over a particular period.

Appraisal interview: a situation where an employee usually sits down with a line manager to identify improvement targets and to discuss whether previous targets have been met.

Assembly: putting a product together. A finished assembly would involve putting together all of the sub-assemblies into a finished product.

Asset: something that has value.

Audit: an official inspection of an individual's or a firm's accounts.

Automated teller machine (ATM): a machine that dispenses cash. Users put their bank card or credit card into a slot, input a personal identification number (PIN), select a given sum and wait to receive notes. ATMs can also be used to deposit funds, transfer money and view account balances.

Automation: the technology applied to producing goods without human input (although humans might operate the control panels that monitor automatic production).

Backward linkage: when an industry depends on the output from an industry which is at an earlier stage of production.

Bank rate: the rate of interest at which the central bank will lend money to financial institutions.

Bargaining range: the spread between the employer's ideal solution to a conflict issue and the employee's ideal solution to the issue.

Barter: the exchange of goods and services for other goods without the use of money.

Bilateral agreement: a situation where both parties exchange promises to each other.

Bill of lading: a document that needs to be signed by a carrier to form a receipt for the goods it will be carrying.

Brain drain: the loss of skilled and professional people from a country due to emigration.

Brand: a unique, consistent and well-recognised image for a product or set of products.

Broadband: a high-speed, high-capacity transmission medium that is able to carry signals from many independent network carriers. Broadband enables a very fast exchange of information, particularly by means of the Internet.

Budget: a plan for the future set out in numbers.

Building societies: organisations originally set up by their members to fund shared/cooperative house-building schemes and later to provide mortgages, but more recently to provide a range of additional financial services.

Bureau of Standards: a body responsible for setting quality standards for the manufacture and production of goods and services within a given country.

Business activity: the activity of producing and selling goods/services to consumers.

Business function: a business unit within an organisation, for example a department such as the finance department.

Business plan: a formal written document setting out the objectives of a business, as well as key details about the intended future running of the business (such as marketing, financing and structuring). It is written for the owners and other stakeholders such as lenders.

Business technology: technology that helps to run a business and its operations. Examples include machines programmed to carry out specific tasks, online selling websites, and computer programs to help accounting and marketing functions.

Calculated risk: a situation where there is a possibility that the outcome may be undesirable, but where the risk-taker is willing to take the risk because he or she has made a calculation of the likelihood of success or failure and believes that there is more chance of success.

Capital gain: the increase in the value of an asset, which is realised when the asset is sold for more than its purchase price.

Carrier: the business that actually transports the freight, such as a particular shipping line or an airline.

Case law: law that has been established by following decisions made by judges and the courts. Previous judgments set a precedent for future judgments.

Cash discount: a reduction in the sales price when the buyer pays cash immediately or within a stipulated period, e.g. within seven days.

Cash ratio: the quantitative relationship between cash and all assets in a financial institution.

Cash sale: the exchange of a good or service for a cash payment.

Casual labour: people who are employed on a temporary basis rather than a regular or full-time basis.

Central bank: the government's bank. It oversees the running of the financial system in a particular country, and licences other banks to operate in that country.

Character traits: notable features of a person's character, for example trustworthiness, reliability, etc.

Characteristics of money: features of a form of money, such as whether it is easy to carry around (portability).

Collateral: an asset (such as property or something else of value) that a borrower provides as security in order to get a loan from a lender.

Commercial bank: a business that takes deposits from households and businesses, make loans, and provides other financial services.

Common external tariff (CET): a shared tax that is common to a group of countries which form a trade group, such as CARICOM (the Caribbean trading community). This tax is levied on goods coming into a country that is a member of the trade group, from a country outside the trade group.

Communication: the means of exchanging information.

Competitive advantage: advantages enabling some regions or industries to grow rapidly at the expense of other regions or industries that have fewer resource advantages. In a business context, this means possessing advantages over rival businesses.

Competitive pricing: setting a price that enables a business to sell its products competitively (i.e. lower than competitors' prices).

Computer programme: a set of instructions that a computer can interpret and put into practice.

Computer-aided design: computer-aided design systems involve using a computer for design purposes, for example to aid textile design. A designer might create a design using a computer programme, which can then be used by a special computer-aided manufacturing machine to cut out the parts that have been designed.

Computerisation: to use a computer to do tasks (such as carrying out calculations and planning operations) that were previously carried out by people.

Conditions of a contract: general conditions are conditions that are general to all forms of contract. Specific conditions are specific to a particular contract, for example the payment conditions, penalties, etc.

Conglomerate: a company that operates in a number of industries, such as banking and insurance, oil and chemicals, or other combinations.

Consideration: something of value given up by both parties as part of an agreement, for example performance, promises or money.

Consignee: business that is sending the goods.

Consignment: an amount of goods that are being transported.

Consignor: business that is receiving the goods.

Constitution: the written and unwritten guidelines and rules outlining how a country will be governed, and who will be legitimately empowered to make decisions on behalf of others.

Consumer: the end user of a product.

Consumer behaviour: the factors that influence consumers to buy one product instead of another, and how this behaviour might change over time.

Consumer organisations: groups that seek to protect the interests of consumers against abuses by businesses.

Consumer panel: a group of people who have been selected for marketing purposes to provide opinions and advice about products and/or services.

Contribution: a principle whereby insurance companies will jointly contribute to the indemnity of the insured when a claim is made for a loss. The implication of this is that someone taking out insurance cannot make a profit out of a loss.

Control system: consists of methods such as targets and performance indicators, used to identify whether a business is on track to achieve its objectives. Where it is not, the system brings in actions to put it back on track.

Copyright: protection provided for authors, composers and artists.

Core business: the main things that a business does and produces (as opposed to activities which are simply concerned with running the business). For example, the core business of a taxi firm is delivering passengers in a safe way to their chosen destinations. (Non-core activities might include keeping records for tax purposes.)

Cost-plus pricing: setting a price in relation to the costs of production, by adding a set amount or percentage on top of the price.

Counterfeiting: to imitate something that is valuable (e.g. a branded product) with the aim of carrying out fraud.

Creative: having imaginative or original ideas.

Credit note: a document sent by the seller to the buyer reducing the amount that needs to be paid on an invoice, for example because goods are damaged in transit.

Credit sale: giving the buyer a period of grace before they have to make a payment.

Credit unions: not-for-profit organisations set up and owned by their members. They encourage members to save, and in return provide them with credit at relatively low rates of interest.

Crowd funding: the contribution of lots of small sums of capital by a large number of people to fund a venture. Crowd funding is typically carried out through the "crowd" contributing sums of capital (funds) through online contributions.

Current assets: liquid assets that can be turned into cash in under one year.

Current liabilities: debts that must be paid within a short period, for example under one year.

Customer relationship management (CRM): all of the ways of managing customer relationships.

Customer relationships: the interactions a business has with current and future customers.

Customer service: paying attention to customer needs by delivering a high-quality service.

Customer support: a type of customer service designed to assist customers in making the best use of a product.

Data mining: finding patterns in large sets of data, such as in purchases made by consumers.

Data protection: safeguarding and protecting data stored in computers.

Database: an organised collection of data that can usually (but not necessarily) be accessed from a computer.

Debentures: forms of borrowing and lending that are not secured by collateral.

Debit note: a document sent by the seller to the buyer identifying additional money that is owed, for example because there has been an error in calculating how much needs to be paid.

Debt management: when a country is in debt, then the debt needs to be structured (managed) in a way that it can be paid off.

Delivery note: a list of items supplied (as well as other details), sent with goods as part of the delivery process.

Democratic government: a government that is elected (freely) by the people of a country.

Democratically elected: a government that is chosen through a free and fair election. Citizens can vote for the candidate(s) that they want to represent them in decision-making processes.

Demographic characteristics: the traits of the market population, e.g. whether customers are young or old, male or female, and whether they live in cities or rural areas.

Deposit account: any type of bank account where the holder of the account can deposit money in the bank.

Development: individual improvement in a work context, where the employee is allowed to identify ways in which they want to be helped to learn and to develop new skills and capabilities.

Digital communication technologies (DCTs): Digital tools that make it possible for two or more people to communicate with each other.

Digital data: data that is represented using machine language systems which can be interpreted by various technologies.

Digital technology: the branch of scientific/engineering knowledge concerned with creating and making use of digital or computerised devices, methods and systems.

Direct legislation: laws that impact directly on what a business or individual can or cannot do.

Direct taxes: taxes where the burden of the taxes and the responsibility for paying them falls on the same individual.

Directions: giving clear instructions (such as to subordinates).

Discharge of a contract: this occurs when the obligations on the parties to the contract have been met.

Disposable income: money left for spending after deductions such as income tax and national insurance have been taken away.

Distribution: all of the processes involved in getting materials, partly finished goods and finished goods to the end consumer, and then arranging for payment to travel in the opposite direction.

Dividends: the shares of the profit of a company that are paid out to shareholders. The sum a shareholder receives in dividends depends on how many shares they hold, and how much profit the company decides to pay as dividends. Dividends can only be paid when other claims on a company's profits have already been settled.

Double coincidence of wants: two people who want what each other has to offer.

Drawee: usually the bank responsible for following the drawer's instruction to transfer funds to the payee.

Drawer: a person making out a bill of exchange, such as a cheque ordering the payment of funds.

Duress: to coerce someone against their will.

E-commerce: buying and selling goods electronically via the Internet.

Economic dualism: the existence of two or more industrial or economic zones in a country (or region), characterised by differing levels of capital, production, technology and other economic factors.

Economic institution: an organisation whose purpose is to make the economy of a country (and the economies of groups of countries) work more effectively, for example by providing finance or making it easier to trade.

Economy: a system in which production (making goods), distribution (moving goods around the system) and consumption (use of goods) takes place.

Elastic: if there is a rise or fall in sales that is *more* than proportional to the price change.

Electronic drawing pad: also known as an electronic tablet, graphics tablet or graphics pad. Enables the user to sketch drawings using an electronic pen.

Electronic network technology: technology that helps people to network with others, using computers and other connected devices.

Electronic point of sale (EPOS): a computerised system for recording sales in a retail outlet using a laser scanner to read the barcode on a product.

Endowment policy: a life insurance policy that pays a fixed sum on a fixed date or upon the death of the insured. The term of the endowment policy is usually linked to the purchase of an asset, and may have a "with profits" element attached to it.

Entrepreneur: someone who shows vision and creativity, and who takes risks by creating a business venture.

Environmental management: managing resources so they have a positive effect on the environment. This relates to how resources are extracted, used in manufacturing processes, and disposed of or reused.

Equity: the value of the owner's contribution to a business. Equity is represented by the value of the share capital of a company, or the owner's contribution of capital in a smaller business.

E-tailer: a business organisation that uses the Internet to communicate and sell goods to shoppers. E-tailing enables a business to communicate with a much larger audience.

Ethics: sets of moral principles regarding what is right or wrong behaviour.

Evaluate: to consider something in order to make a judgment, for example to consider what a business has achieved in order to judge how well it is doing.

Executive summary: this is also called a management summary, and it is a short part of a longer document that summarises the key content of the main document.

Expenses: the costs of doing business.

Exporting: selling goods into a foreign/overseas market.

External audit: an audit carried out by an independent, qualified accountant. The purpose of the external audit is to determine whether the accounting records are accurate and complete.

Face value: the value written on the front of a paper security, or the value of a paper security (such as a treasury bill) on its redemption date.

Factoring: a system whereby a business sells its accounts receivables (money owed to the business in unpaid invoices). The accounts receivables are sold to a factor (third party) at a discount.

Factors of production: the resources needed by businesses to produce goods and services.

Fast-tracking: the process of reducing the number of operations that take place in a sequence and replacing some of them with activities that can be carried out at the same time in order to finish a job faster.

Feasibility: capable of being done.

Feedback: information provided to a company about its brand, products and customer service, obtained through questionnaires and interviews.

Financial forecast: a projection of the expected financial position of a business in the future, and the results of operations and cash flows based on expected conditions.

Fiscal policy: deliberate alteration by the government of the relationship between how much it spends and how much it takes in taxes, in order to achieve economic goals (such as the reduction of inflation).

Fixed capital: durable capital equipment that can be used repeatedly in the production process.

Flat organisation: an organisational structure in which most middle management roles have been eliminated.

Foreign multinational: a company from outside the Caribbean that operates in two or more countries.

Foreign trade/international trade: the buying and selling (importing and exporting) of goods and services across international frontiers.

Forward linkage: when one industry or firm supplies another industry or firm further up the supply chain.

Fourth-party logistics provider: a business whose function is not just to move products but to provide supply chain solutions for businesses seeking to distribute goods.

Free movement of capital: allowing finance to flow freely from one country to another without restrictions.

Free trade: trading between nations where there are no restrictions (such as no import taxes or limits on the quantities of goods that can be traded).

Fringe benefits: non-financial incentives given to employees.

Functions of money: the things that money does and the purposes it serves, for example as a means of making an exchange.

Funds: a sum of money made available for a specific purpose. Funds can be built up by saving or borrowing.

General ledger: an accounting book/electronic pages recording all of the accounts apart from purchases and sales.

Geographic information system: a computer-based system designed to capture, store, manipulate, analyse, manage and present all types of geographical data, often in the form of a map.

Global logistics provider: a large, multinational company set up for the purpose of managing distribution networks across the globe.

Global Positioning System (GPS): allows people to pinpoint their exact position using satellites that orbit the Earth.

Global supply chains: the means to deliver standard, internationally branded goods and services from suppliers to end consumers across the globe, using integrated manufacturing, transport and distribution systems.

Globalisation: the manufacture and distribution of global products by very large companies that link their supply chains across many countries.

Goals: the destination of a business activity. A goal is what you want to achieve in the end.

Government bond: longer-term borrowing by the government.

Government grant: a financial award given by the central, local or municipal government, which is not usually expected to be repaid.

Grant: a sum of money given by the government for a particular purpose, such as to enable a young entrepreneur to set up in business.

Gross domestic product (GDP): the total monetary value of all the goods produced in a country (i.e. within a country's borders) in a particular period of time, e.g. one year.

Gross profit margin: the percentage of profit a business makes after the cost of goods sold are deducted from revenues.

Growth pole: an area of economic growth with high levels of production and the use of advanced technology.

Hacking: gaining unauthorised access to data in a system or computer.

Hazardous substances: substances that are dangerous to humans and the environment, such as toxic chemicals or explosive gases.

Hierarchy: a system that organises people or things into levels of seniority or importance.

Hire purchase: hiring a good until the final payment for it has been made.

HTS code: a Harmonised Tariff System code; a specific code to identify categories of products, which makes it easier for customs departments to identify goods being carried.

Human capital: the concept that just as machinery makes up physical capital which enables production, so too do people make up human capital, enabling production through their skills and abilities.

Import licence: a permit from a government body giving permission for goods to be imported into a country.

Import substitution industrialisation: a policy of trying to reduce the reliance of a country on the import of industrial products from overseas. Industrial products (such as cars, computers and washing machines) tend to be relatively expensive because they are branded. This contrasts with primary products (which tend to be unbranded). Many countries from the 1970s onwards sought to develop their own industries in order to become less dependent on expensive manufactured imports.

Import tariff: a tax on the value or number of imports entering a country.

Indirect taxes: taxes where the burden and payment of the taxes fall on different individuals.

Inelastic: if there is a rise or fall in sales that is *less* than proportional to the price change.

Infant industry: an industry that is just starting to develop in a specific country (although the industry may be better developed in other countries).

Inflation: a sustained increase in the prices of goods and services.

Innovation: the application of new ideas and knowledge to developing new processes and products.

Inquiry: a request by a potential buyer for information about goods/services, such as their prices and how they will be supplied.

Insurable interest: this principle sets out that an individual can only take out insurance when he or she has a personal economic stake in an event or loss.

Insurance contract: an agreement made with an insurer to pay premiums in exchange for cover, promising guaranteed payments in the case of a loss (subject to the terms of the contract).

Integrated marketing: the process of coordinating messages across communication channels, so that consumers receive a consistent message about a company and its products.

Intellectual property: creations of the mind, such as inventions, literary and artistic works (e.g. books and music), designs and symbols, and names and images used in commerce (e.g. a trademark, logo or brand image).

Interest: return paid to a saver. Fixed-rate interest involves paying a previously agreed rate of interest on the due dates.

Intergovernmental: between governments. Intergovernmental discussions and agreements help to forge cooperation between countries.

Intermodal transport: the delivery of cargo using two or more modes of transport.

Internal audit: an audit that takes place within a company by an employee who has the specific task to inspect and check records.

Intranet: a local or restricted communications network. The term "intranet" usually refers to a private network created using World Wide Web software.

Inventories: goods and materials that a business holds for the purpose of reselling them.

Inventory: a complete list of the stock in hand at a business.

Investment: the purchase of assets in order that these assets will earn future income for you.

Investment company: a company that collects contributions from investors and then reinvests them in company shares. The investment company will pay out a return (dividend) each year depending on how profitable the investments have been.

Job analysis: the process of identifying the qualities and requirements necessary to do a job or set of tasks. This will involve studying what is done in a particular job.

Job specification: a list setting out the requirements of a job. There are usually two sets of criteria: those that are essential and those that are desirable.

Judiciary: the system of courts of justice in a country, and the people responsible for decision-making in those courts.

Key partners: organisations that a business works with collaboratively in a number of situations, in order to provide better goods and services, and better customer service.

Key sectors of the economy: industries that have both strong forward and backward linkages.

Landfill: disposal of waste material by burying it, especially where this involves filling in a pit and reclaiming it.

Layaway: the seller will "lay" the item "away" until the good has been paid for.

Leadership: the action of leading.

Lean production: a systematic set of processes for eliminating waste from manufacturing and other forms of production. Waste is defined as any activity that does not add value in terms of what the customer wants from the product. The challenge is to identify any processes that currently take place in production that waste time and resources, and then to cut these processes out.

Leasing: a lease is a contractual arrangement whereby the lessor (user) agrees to pay the lessee (provider of equipment) sums of money for the use of leased items. Typical items that are leased by businesses include photocopiers and cars.

Lender of last resort: a financial institution (e.g. a central bank) that will provide liquidity (funds) to another financial institution as a last line of credit.

Liability: to be held legally responsible by law.

Licence: a permit from an authority to use or do something. In the case of banking licences, these permits allow financial institutions to carry out stipulated financial activities.

Life of a product: the period over which a product appeals to customers.

Limited liability: the maximum sum that a company's owners might have to pay out to meet debts, the maximum being the sum that they invested in the business. (This is the extent of their liability.)

Lines of authority: lines indicating who is senior to whom in terms of having more responsibility and power with regard to giving out instructions and decision-making.

Linkage industry: an industry that is connected to another industry because it provides supplies for it, or is a market for its finished product.

Liquid assets ratio: the quantitative relationship between liquid assets and all assets in a financial institution.

Liquidity: the ease with which an asset can be turned into cash.

Logistics: the coordination and organisation of complex operations.

Logistics hub: a location that acts as a centre for a range of activities relating to transport, logistics and goods distribution, both for national and international purposes.

Loss leaders: products sold at a loss in order to encourage buyers to either purchase other products made by the company, or to make future purchases of the good when it is no longer sold at a loss.

Management: the process of bringing the factors of production (human and non-human) together to ensure organisational goals are achieved.

Management information system (MIS): a computer-based system that helps managers to manage their departments more efficiently. The system provides them with tools to manage, reorganise and present the information they need.

Manager: a leader who is expected to organise people, resources and finances by setting up systems and procedures in a logical and efficient way.

Manufacturer: a business that makes goods, usually by processing raw materials.

Manufacturing: making or finishing a raw material (or semi-manufactured parts) into a finished good.

Market: any situation where buyers and sellers come into contact.

Market research: carefully gathering and analysing data about the market for goods and services.

Market value: the price of an item or value of an item in terms of what you would be able to receive for it at a particular moment in time, if you sold it immediately in the relevant market for that item. For example, the market value of property is the price that a real estate agent would currently be able to gain from the highest bidder in the housing market.

Marketing: identifying and anticipating customer requirements in order to meet these requirements and make a profit.

Marketing mix: the four key decisions that must be taken in the effective marketing of a product.

Mass marketing: to offer and sell products to everyone who makes up a market, using mass-selling techniques.

Mature: the date at which a financial asset (such as a treasury bill) becomes due for repayment.

M-commerce: the trading of goods using mobile technology, typically through cellphones. It is a very recent development, and a breakthrough came in 2014 with the development of Apple Pay (a way of paying for goods and services using a mobile device such as a smartphone).

Merchandising: the way in which products are arranged in a physical or online store to maximise sales.

MSMEs: micro/small/medium-sized enterprises. The following terms relate to the different ways that an MSME can be defined.

The assets method: a calculation totalling up the value of the things that a business owns or is owed at a given moment in time.

The employment method: a calculation using the number of employees of a company. This is a simple method and the most widely used.

The turnover method: a calculation of the sales value of a business in a given period of time, for example one year.

Micro-lending agencies: provide small loans and other banking services to unemployed or low-income individuals, who may not be able to get finance from banks.

Migration: the movement of people, usually to find better paid work or some form of employment, and a perceived better standard of living and quality of life.

Minimum reserve requirement: the minimum quantity of funds that a bank is required to hold in accounts at the central bank.

Mis-selling: when a financial advisor distorts information or embellishes the qualities of a particular financial product because he or she is

likely to benefit most from commission from the sale of this financial product (rather than other products).

Mode of transport: the means by which goods are moved from point A to point B.

Mom and pop store: a small retail business that is typically family owned and run.

Monetary policy: the deliberate alteration by the government of the quantity of money in the economy, and the price (interest rate) of borrowing or lending money.

Money: anything that serves as a generally acceptable means of exchange. Includes physical objects, e.g. cowrie shells and paper money, as well as cards and electronic forms of payment.

Monitoring: observing, recording and checking that systems are working effectively in order to be able to make corrections where necessary.

Multimodal transport: involves two or more modes of transport, but the exporter deals with a single carrier who is responsible for the whole journey.

National income: the total level of output (or expenditure or income) produced by a country in a given quarter or year.

National insurance: a tax paid by workers and employers for funding state benefits such as pensions and sickness pay.

National security: securing the national defence and foreign relations of a country in order to protect the country from civil disturbance, from foreign powers, or from threats to the nationals of a country when they are abroad.

National statistical office: a department of the government responsible for collecting, recording and making available a range of statistics relevant to progress and change in a country (such as population data, national income figures, level of government expenditure and debt, etc.).

Natural resources: materials that occur naturally in the earth or its atmosphere, such as water, air, mineral deposits, fish stocks, timber, etc.

Necessity entrepreneurs: people who become entrepreneurs because they need additional income to get by. Often, they will run a small business enterprise from home as well as having other jobs working for someone else.

Negligence: failure to exercise a degree of care that would be taken by another reasonable person in the same circumstances.

Niche marketing: to offer and sell products to a smaller segment of a wider market. The niche market consists of specific groups of customers with specialist tastes and needs.

Objectives: these are specific and measurable results that a business wants to achieve in a specific time frame.

Obsolescence: being in the process of passing out of usefulness.

Offer: a proposal made by one party to another party, establishing his or her willingness to enter into a legal binding agreement. The basis of the offer will help to form the contract.

Offeree: someone who receives a proposal from another party (i.e. from the offeror). If the offeree accepts the proposal, he or she enters into a contract with the offeror.

Offeror: someone who makes a proposal to another party in the hope of entering into a contract with them.

Oil platform: an offshore oil-drilling rig made up of a large structure, enabling the drilling of oil for exploration and extraction purposes, as well as the ability to store and process petroleum.

Operating profit: in the income statement, operating profit applies to companies that manufacture goods. These manufactured goods will sometimes be sold to other manufacturing companies, sometimes to retailers, and sometimes to the end consumer.

Operating profit margin: the percentage of profit a business makes after all costs are deducted from sales.

Operational plan: this sets out the day-to-day tasks that are required to run a business.

Outsourcing: hiring a business outside a company to carry out services or produce goods on behalf of the company.

Overheads: all ongoing business expenses, not including the labour or materials used to create a good.

Owner: person or people to whom a company legally belongs. These may be the independent owners or the shareholders of a company.

Patent: this grants exclusive rights to the production, sale, use and even importation of something, and can last for up to 20 years.

Payee: a person entitled to payment by the drawee as a result of instructions made by the drawer.

Penetration pricing: setting a low price in order to gain sales in a market. Typically used for new products of which customers have little awareness.

Pension fund: a fund that individuals pay into (sometimes their company also pays a contribution), from which they can claim benefits when they retire (in proportion to how much they have paid in).

Personal income: the money that a person receives in a particular period of time.

Personal selling: where members of a salesforce are directed to interact with customers in order to explain a product and how it works.

Personal trait: a characteristic that is personal to an individual, for example an outgoing personality.

Physical investment: investment in real physical things, such as the purchase of machinery, factories and other buildings. Building a port, airport, bridge or road would also be defined as physical investment.

Population density: a measure of how many people live in a specific area (such as a square kilometre).

Portnet: a system that uses advanced IT to support shipping and port authorities via the Internet.

Price list: a list of goods and their prices.

Private companies: companies that are owned by private shareholders and whose shares are not openly traded on a stock exchange. Shares can only be bought and transferred with the permission of the board of directors.

Procedures: a series of steps required to complete tasks, for example procedures for dealing with customer complaints.

Production: the process of using materials (inputs) and transforming them in some way to produce goods and services (outputs).

Productivity: a measure of how much output can be produced from a given level of input. A unit of input is described as being productive if it can produce a relatively large output.

Programming language: a formal language that is used to create a set of instructions as part of a computer programme.

Progressive tax: one that takes a greater proportion of income from a wealthy person than from a poor person.

Promotional pricing: pricing designed to encourage awareness of a product or brand so as to encourage new sales. Typically it involves offering products at relatively low prices.

Propensity: a tendency to behave in a certain way, e.g. a propensity to take risks.

Proportional tax: when tax rises in proportion to the income of the taxpayer.

Prototype: an early version, sample or model of a product, built to test the effectiveness of the product concept. The idea is to learn from prototypes in order to make improvements, and working models are part of an ongoing process of product development.

Public companies: companies whose shares are traded on a public stock exchange. Buyers and sellers can buy or sell these shares through an

intermediary (a market maker). They can trade shares without having to get permission from the board of directors.

Public relations: managing the flow of information from an organisation to its "public" in order to build the reputation of a company and its brands.

Public utilities: a public utility is an organisation that maintains the infrastructure for a public service, such as a government electrical company providing electricity generation and cables to feed energy supplies to business and households.

Purchase ledger: an accounting book/electronic pages recording the value of purchases made by a business, the dates on which the purchases took place, and from whom they were bought.

Quality of life (QOL): a measurement of the benefits of living, such as access to healthcare and leisure activities, and a long life expectancy.

Ratio: the quantitative relationship between two amounts, showing the number of times one value contains the other.

Reforestation: the process of planting new trees to replace areas where forests have been cut down.

Regional development bank: a financial institution that provides loans and grants to businesses and governments, to help with the process of economic growth.

Regressive tax: one where the poor pay a higher percentage of their income in tax than the rich.

Regulation: rules set in place to create fair play.

Remittance: a sum of money sent by someone working abroad back to their home country.

Renewable energy: energy produced from a source that is replaced rapidly by a natural resource, such as wind and wave power. Coal and oil in contrast are non-renewable.

Research: systematic investigation or study of a particular topic in order to establish facts and reach new conclusions.

Reserves: funds that banks and other lending institutions are required to hold at the central bank (and which form part of a bank's liquid assets).

Retailer: a business outlet selling goods directly to the final consumer.

Retrenchment: where a company cuts back on its workforce, usually to reduce costs.

Reverse logistics: operations related to the reuse of products and materials. It involves planning, implementing and controlling the cost-effective flow of raw materials, inventories and finished goods from the point at which they are consumed to the point from which they originated.

Risk management: the process of managing and controlling risks so that the risk taken is acceptable to the risk taker.

Sales ledger: an accounting book/electronic pages recording the value of sales made by a business, the dates on which the sales were recorded in sales documents, and to whom the sales were made.

Savings: the part of an income that is not spent.

Savings account: an account set up with a bank primarily for the purpose of saving money for the future. A savings account has a higher rate of interest than a checking account (a deposit account at a bank that allows deposits and withdrawals, also called a current account), and it is sometimes more difficult to take money out.

Scab: someone who is recruited to replace a striking worker.

Security measures: measures taken to protect cargo in transit, as well as to protect the infrastructure of ports (for example through the use of security fences, guards patrolling port facilities and the inspection of cargo).

Self-actualisation: social psychologists use this term to refer to the achievement of one's full potential through creativity and independence.

Selling: the process of getting customers to buy the product or service that you are offering.

Severance pay: money paid to employees on the termination of their employment (the size of the payment will often depend on the length of service).

Shareholder: someone who is a part-owner of the business; the shareholder will typically have many shares.

Shipper: a person or business that specialises in shipping freight. A shipper is typically an intermediary between a consignor and a consignee.

Shop: a retail business where goods and services are sold.

Short-term fixed deposits: investments held for short periods (between one week to a maximum of twelve months).

Silo: this term stems from a tower used to store grain. In business, it refers to the separation of one group of workers from the others, as a result of being allocated to a particular organisational line that is separated from other lines.

Skimming: pricing designed to attract different groups of customers (typically according to what customers are willing or able to pay). Pricing will initially be high to capture those willing to pay higher prices, then it will be reduced to capture those who will pay less.

Social cohesion: the ties that bind together members of a society, such as a willingness to cooperate, share and work together.

Social compact: the term used for ongoing agreements between the business sector, the government and employee representatives.

Social media: Internet-based communication instruments that enable people to interact with each other by sharing information.

Social media marketing: a form of Internet marketing that uses social media sites to generate social media activity.

Social services: services that provide help with people's living conditions and financial well-being.

Special economic zone (SEZ): a designated area in which business and trade laws are different from the rest of the country. The aim of creating such a zone will be to increase trade, investment and jobs.

Sponsorship: the act of giving money to help support an event, organisation or person, in return for being able to advertise your products with that event, organisation or person (e.g. being able to display your brand name and products at a sporting event that you have helped to finance).

Spreadsheet: an electronic document in which data is set out in rows and columns. The data can be used to make calculations and can be manipulated for various purposes.

Stakeholder: individual or organisation that owns one or more shares in a company.

Standard of living (SOL): a measurement of the goods and services that an individual is able to purchase and enjoy with his or her income (including access to education and health services).

Start-up capital: money required to launch a new business.

Storage server: a server built for the purpose of storing (and accessing) small to large volumes of data over a shared network or via the Internet. May also be called a file server.

Sub-assembly: part of a finished product that has involved bringing together a number of components into a partially finished product, such as the engine of a car, or the chassis of a car.

Subordinate: someone of a lower rank or position.

Subsidies: a government financial incentive to producers or sellers of a product to behave in a certain way.

Sunrise industry: a relatively new industry that is growing very quickly.

Supply chain operations: the management of the flow of goods and services.

Sustainable development: development that is not just a one-off process but leads to ongoing benefits over time. For example, building a

good-quality dam will provide fresh water, which leads to ongoing health benefits, which also enables citizens to be more productive at work. Sustainable development will benefit future generations as well as the current generation.

SWOT: stands for strengths, weaknesses (of a business and/or its products) and the opportunities and threats that the business faces.

Systems: business processes that are designed to deliver goods and services to customers, for example the IT system provides employees (or customers) with an effective information and communications system.

Tall organisation: an organisational structure in which there are many layers of management.

Tax: a compulsory financial charge imposed by a government.

Tax return: a form setting out the personal details of a taxpayer. For example, an income tax return would set out an individual's pay, other forms of financial benefits, details of national insurance paid, etc.

Technical assistance: non-financial help provided by local or international specialists, such as the sharing of information and expertise.

Technologies: technology is the use of science for practical purposes. When small businesses use technology, this means they are using more advanced techniques of production, usually as a result of using more advanced equipment such as computer systems and computer-aided machines.

Tele-banking: making banking transactions using a computer network.

Telecommunications: the sending of information (in the form of words, sounds and/or images), usually over long distances, in the form of electromagnetic signals by telephone (including cellphones and landlines), telegraph, radio or television. A key part of telecommunications is the transmission of messages from one computer terminal to another, which act as both transmitters and receivers.

Telemarketing: selling goods over the telephone.

Term: any provision forming part of a contract. Each term in a contract gives rise to a contractual obligation. Breach of a term can lead to litigation, which is the process of taking legal action (for example taking an individual or business to court).

Term deposit: a deposit that is held at a financial institution for a specific length of time.

Termination of a contract: most contracts are completed when they have been discharged and thus the contract is terminated. However, in some instances one or both of the parties can terminate a contract because they do not want to go ahead with the terms set out in the contract, for example because of the failure of one of the parties. For example, if a firm closes down then some of its contracts will not have been discharged, but they will be terminated through inability to continue trading.

Trade discount: a reduction in the sales price offered to traders, e.g. by a wholesaler to a retailer or builder's merchant to a builder.

Trade payables: sums payable by a company to its suppliers for goods delivered or services consumed.

Trade receivables: debts owed to a company by its customers for goods supplied or services rendered.

Trade union: an association of employees that has been formed to protect and promote the interests of its members, and to achieve other jointly agreed aims.

Trademark: something that distinguishes one company's product from those of its competitors.

Trading profit: in the income statement, trading profit applies to companies that buy and sell goods (i.e. shops and other retailers), and is calculated by deducting overhead costs from gross profit.

Treasury bill: a short-term loan to the government.

Tripartite agreement: an agreement between three parties, such as the tripartite social compact

in Barbados between employer representatives, employee representatives and the government.

Trust: an arrangement whereby a person or body is appointed to hold property or investments on behalf of one or more beneficiaries.

Trustee: a legal term for anyone who is responsible for investments or other assets on behalf of one or more beneficiaries.

Under seal: this term applies to a situation where legal documents are differentiated from other types of document. A seal is a legal mark which signifies that the document with the seal is a legal document and that it is binding.

Unilateral agreement: a situation where one party makes a promise in exchange for the other's performance.

Unit cost: the cost of producing a single (one) unit of output. It can be calculated by dividing the total cost of producing a given level of output by the number of units produced. So for example if a business produces 1,000 units for a total cost of $10 000, the cost of producing each unit (unit cost) would be $10.

USP: a unique selling point that distinguishes a product or service from others of a similar nature (such as coffee that gives a smoother and richer taste than rival products).

Utmost good faith: a principle relating to insurance contracts whereby it is legally required for all parties in an insurance agreement to disclose all information that might influence the other party's decision to enter into an insurance agreement with them.

Value added tax (VAT): also known as GST (goods and services tax), this is a consumption tax charged on a product whenever value is added at each stage of the supply chain, from initial production to point of sale.

Vendor: name of the supplier of the goods or service.

Venture capital: funds provided by venture capitalists (usually rich individuals) to help fund the business projects of small businesses.

Viability: currently succeeding (making a profit) and likely to continue to be a success.

Viral marketing: a form of marketing whereby consumers are encouraged to share information about a company and its products over the Internet (such as through the use of social media).

Waive: voluntarily surrender a right or privilege.

Warranty: guarantee given on the performance of a product or the doing of a certain thing.

Web: groups of servers that are connected to share computer-generated information. The World Wide Web (WWW) links servers on a global basis.

Website: a location that is connected to the World Wide Web and which contains one or more pages of information.

Welfare: well-being; refers to the health and happiness of individuals and groups.

Wholesaler: a business that stores goods in bulk.

Work ethic: a belief in the importance of work and that hard work is fulfilling.

Working capital: the capital of a business used to finance day-to-day transactions (often defined as current assets *minus* current liabilities).

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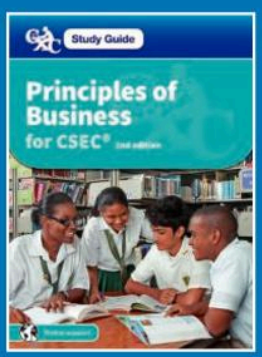

9780198437390

OXFORD UNIVERSITY PRESS

How to get in touch:
web www.oxfordsecondary.co.uk
email schools.enquiries.uk@oup.com
tel +44 (0)1536 452620
fax +44 (0)1865 313472

ISBN 978-0-19-843735-2