



Unit Seven

International Environment

'No nation was ever ruined by trade.'
Benjamin Franklin

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Chapter 23

Ireland & the Global Economy

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▲ These are also Key Study Questions ▲

Case Study: Largo Foods



When his farming businesses went into decline, Raymond Coyle was forced to sell up. He used the money from the sale of his farm to clear his debts and had just enough money to set up a modest new enterprise, Largo Foods, making potato crisps. At the time the market was dominated by big players like Tayto, and Largo captured just a small share.

Raymond's big break came when he won the contract to make **own-brand** crisps for SuperQuinn and expanded to employ nine people. He then bought the Perri brand name from a company that had closed down. He used this name to launch a range of 'Supercrisp' in a bigger foil pack, which set its packaging distinctly apart from that of Tayto, its main rival.

Raymond Coyle went on to create new brands, such as Hunky Dory's, Sam Spudz, Kezzil and McCoy's. His ability to put together a very effective **marketing mix** for each brand means that all these products have proved to be very successful.

Largo Foods continued to expand using a range of **organic** and **inorganic expansion** strategies. It eventually took over its main Irish rival, Tayto, which made it the largest snack food company in Ireland with dozens of different product lines including crisps, popcorn, peanuts and other snacks.

The company employs nearly 1,000 people with plants in Meath, Donegal and the Czech Republic. Sales run into many millions of euro and the firm now **exports** most of its output.

Raymond Coyle is well known for visiting **international trade fairs** to promote the company and win export orders. He now supplies supermarkets in Britain with own-brand crisps and also exports to many countries, including Lebanon, Singapore, Iceland, Dubai, Malta, Russia and Canada.



As the Irish market is small, access to international markets has been critical to the **growth** of Largo Foods and exports are essential to its future success. From his farming experience, Coyle has learned not to be dependent on any one single market.

1. What is international trade?

By exporting crisps, Largo is engaging in international trade. **International trade** refers to the buying (importing) and selling (exporting) of different products between countries. International trade has existed for thousands of years but the last 50 years has seen a huge increase due to improvements in transport and telecommunications technology.

Over the past 75 years, Ireland has gone from being a country with very little foreign trade to being one of the most open economies in the world. **An open economy** is an economy that engages in international trade. For most European countries today, international trade accounts for about a quarter of all business activity in their economies. However, in Ireland, nearly 60% of all the goods and services produced in the economy are now exported.

Imports are goods/services bought from other countries and they can be visible or invisible. Imports must be paid for using foreign currency.

- **Visible imports** are physical goods, such as cars, books and computers.
- **Invisible imports** are services, such as banking, insurance and tourism, that are provided to Irish customers by foreign firms.



Ireland buying **products** from abroad = **visible imports**
Ireland buying **services** from abroad = **invisible imports**

Why import? Ireland imports goods because it is a small country and we do not have the resources, skills or economies of scale to produce all of the goods that consumers or businesses need. Importing provides oil, machinery and components needed by industry. It also provides consumers with a wider variety of goods to choose from when shopping. However, importing costs money. To earn the money needed to pay for imports, Ireland must **export** products that customers in other countries want to buy.

Exports are goods or services sold by Irish firms to customers in other countries. Exporting goods and services brings foreign currency into the country and benefits the national economy. Exports are also important as they allow us to earn the foreign currency we need to pay for the imports we want.

- **Visible exports** are physical goods, such as food, pharmaceuticals and engine components.
- **Invisible exports** are services that can be sold to foreign customers, such as financial services or selling holidays in Ireland to foreign tourists.

Ireland selling **products** abroad = **visible exports**
 Ireland selling **services** abroad = **invisible exports**

Why export? Ireland needs to export to earn the money to pay for imports. Exporting also generates economies of scale and increased employment in the firms producing goods and services for export.

Import or Export?
 Ask yourself which way is the money going?
 ➤ If the money is coming into Ireland, it's an export.
 ➤ If the money is going out of Ireland, it's an import.

- Ireland's main exports are:
- Medical equipment
 - Chemicals and pharmaceuticals
 - Electronics
 - Software
 - Food and drink
 - Financial services

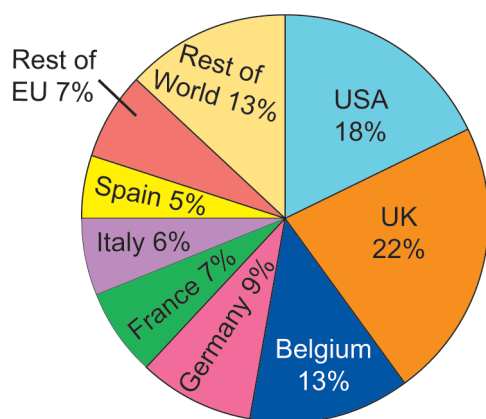


Fig. 1 Destination of Ireland's exports (goods and services)



OL Short Q1, 3
 OL Long Q1, 2, 3



HL Short Q2

2. How is international trade measured?

How a country is performing in international trade is measured using the **balance of payments**. The balance of payments is the total difference between all the flows of money into and out of a country in a year.

A **balance of payments surplus** is favourable as it means Ireland is earning more than it is spending internationally.

A **balance of payments deficit** is unfavourable as it means the country is paying out more than it is earning.

Sample Balance of Payments (in € billions)		
Visible Trade	Exports of goods	€100
	Less imports of goods	€(80)
	Balance of trade	€20 surplus
Invisible Trade	Exports of services	€25
	Less imports of services	€(30)
	Balance of invisible trade	€(5) deficit
Balance of Payments		€15 surplus

OL

OL Short Q2, 4, 5
OL Long Q4, 5

HL

HL Short Q1, 3

The balance of payments is made up of the **balance of trade** and the **balance of invisible trade**:

- The **balance of trade** refers to the difference between all visible imports into and visible exports out of a country. Invisibles are excluded. In the example above, the country has a balance of trade surplus of €20 billion.
- The **balance of invisible trade** refers to all the money flowing into the Irish economy (from tourist revenues, EU grants, foreign loans, etc.) and flowing out of the economy (from Irish people taking foreign holidays, repayments of foreign loans, etc.).

3. What are the benefits to Ireland of free international trade?

Free trade occurs when trade between countries is not restricted in any way by barriers such as tariffs (import taxes) or quotas. It is based on the theory that countries will be better off if each specialises in the goods it is most efficient at producing. Free trade exists between members of the EU. This means firms like Largo Foods can freely export their goods to other EU markets without having to deal with obstacles like tariffs or quotas.

Benefits for businesses

- **Access to raw materials:** Firms can **import** raw materials (e.g. oil) and essential finished goods (e.g. machinery) that are not available in Ireland.
- **Increase sales:** Firms like Largo Foods can expand their sales and profits beyond the domestic market through **exporting**.
- **Economies of scale:** Exports help firms to gain economies of scale and become more efficient, such as lowering per-unit costs and prices. This improves their ability to compete and survive against multinational rivals.
- **Spreads business risk:** Exporting spreads a firm's business risk by reducing its reliance on sales in a single country.

Benefits for consumers

- **Choice:** Imports of goods can lead to more competition and a wider choice of goods for consumers.
- **Quality:** A wider choice of goods for consumers puts pressure on domestic firms to ensure their products can match or exceed the quality of imports at competitive prices.

Benefits for the economy

- **Jobs:** Successful **exporting** generates jobs and incomes in Ireland.
- **Foreign exchange earnings:** Ireland must **export** goods to earn the foreign currency needed to pay for imports.
- **International understanding:** International trade encourages communication, understanding and co-operation between countries and was one of the major reasons for the establishment of the EU. Countries that trade a lot with each other are far less likely to go to war.

OL

OL Short Q6
OL Long Q6, 8

HL

HL Short Q4
HL Long Q1

4. What is protectionism?

Case Study: China copies Japan

After the Second World War, Japan adopted **protectionist** policies to discourage imports into the country. This allowed Japanese firms to grow and develop free from foreign competition in their home market. When the Japanese economy was rebuilt and its firms were large enough to compete internationally, the government relaxed some of the protectionist policies. However, from time to time the Japanese government still uses protectionist policies to safeguard Japanese firms and jobs, especially in new or still-growing sectors of the economy.

Today, China has copied Japan's example and is using many protectionist policies to protect its industries from foreign competition. This allows it to build up strong companies with the economies of scale needed to compete internationally. It is using protectionism as part of its strategy to become an economic superpower.

Protectionism refers to barriers imposed by governments to prevent free trade. Governments are often tempted to introduce protectionist policies, especially against imports, for the following reasons:

- **Business growth:** Protectionism can help shelter young and growing firms (infant industries) from cheap foreign competition.
 - ▶ **Example:** the US government imposed tariffs on imports of Japanese motorbike brands such as Yamaha in order to protect the US Harley-Davidson brand of motorbike.
- **Business survival:** Protectionism can protect essential industries such as agriculture, media, steel and transport from being undermined or destroyed by cheaper foreign competition.
 - ▶ **Example:** The removal of protectionist policies when Ireland joined the EU meant that thousands of jobs in traditional industries like footwear and clothing were lost due to cheaper European imports.
- **Protect employment:** Protectionism can be used to protect employment in industries under threat from cheap imports. This can be important if competition is coming from countries with cost advantages such as low wages (e.g. China) or large government subsidies (e.g. South Korea).
- **Improve balance of payments:** Protectionism can improve a country's balance of payments by reducing the amount of money flowing out of the country to pay for imports. Protectionist measures such as tariffs can also **raise tax revenue** for a government.



Methods of protectionism

- **Tariffs** are taxes put on imported goods. This makes imports more expensive and less competitive against the products and services of domestic firms.
 - ▶ **Example:** If Largo Foods tried to export goods to China, it would find a tariff tax of between 25–35% being placed on its crisps before they could be sold.

- **Quotas** establish a limit on the quantity of certain goods that can be imported. The aim of a quota is to discourage imports and promote sales of domestically produced goods.

▶ **Example:** The EU has imposed a limit on the quantity of bananas that can be imported from non-EU member countries.

- **Embargoes** are bans preventing the importation or export of specified goods.

▶ **Example:** Ireland and other EU countries were forced to place an embargo on the import of cattle and meat from the UK because of the very high levels of BSE ('mad cow' disease) in that country.

- **Rules and regulations:** Governments can restrict international trade by imposing rules and regulations on the import or export of goods. There may be good health, safety or environmental reasons for these rules but governments sometimes use them as a concealed method of deliberately frustrating the importation of foreign goods.

▶ **Example:** If Largo Foods tried to export their products to China, it could be forced to wait up to three years before the Chinese government would issue a licence allowing the goods to be imported. By setting up its own factory in China, Largo Foods could bypass this protectionist barrier.

- **Subsidies** are money paid by governments to help firms cover their operating costs and keep their prices competitive. They can take the form of grants or special low-interest loans.

▶ **Example:** The EU has given subsidies to help European aircraft manufacturer Airbus to compete internationally on price against rival US firms such as Boeing. This allowed Airbus to grow and achieve the economies of scale needed to become a major aircraft producer.

- **Retaliation:** The introduction of protectionist policies by one country can provoke retaliation from another country that introduces similar policies in response. Both countries then miss out on the benefits of free trade.



OL

OL Short Q8, 9
OL Long Q9

HL

HL Short Q5, 6, 7

5. What are the main trends in international trade?

The huge increase in international trade over the last 50 years is due to a number of interrelated factors.

- **Improvements in transport and ICT:** Modern shipping and air transport have made exporting and importing cheaper and faster. Improvements in information and communications technology (ICT) allow businesses to communicate globally with staff, customers and suppliers. Goods can also be bought and sold over the Internet, with payments made electronically.
- **Development of global advertising** using television and the Internet. This allows firms to develop **global brands** that can be promoted globally for a global audience.
- **The emergence of trading blocs:** A **trading bloc** is a group of countries that agree to remove protectionist barriers to free trade between themselves. However, they impose tariffs and other protectionist barriers on all imports coming in from countries that are not members of the bloc. The **European Union (EU)** started as a trading bloc, and the USA, Canada and Mexico have come together to form the **North American Free Trade Agreement (NAFTA)**.

- **Emergence of new markets:** Eastern Europe is a growing market. Further east, the Pacific Rim region is a fast growing economic region and includes China, Japan, South Korea, Taiwan, Singapore, Thailand, Malaysia and Indonesia.



- **Increasing power and influence of transnational corporations (TNCs):** Transnational corporations are companies that produce and sell goods or services in many different countries. Since the Second World War, the number and size of TNCs has increased and many are now huge **global companies** that treat the world as one single market for their products. These companies can lobby governments for greater free trade policies and fewer restrictions on their activities.
- **Deregulation** refers to the removal of government rules and regulations from the workings of business, including the ability to trade freely internationally without any protectionist barriers.
 - ▶ **Example:** In Ireland the deregulation of air travel allowed new operators like Ryanair to enter the market and sell tickets up to 80% cheaper than Aer Lingus. Deregulation normally means increased competition in markets and lower prices. However, jobs in the previously protected firms and industries may be threatened. Countries that do not comply with demands for deregulation can be subject to fines or other sanctions, for example from the EU or World Trade Organisation (see below).
- **The level of international competition is becoming intense.** As a result, firms must be constantly vigilant about business developments and strive to adapt and compete to the highest possible international standards.
- **More businesses are relocating production and other activities to lower-cost countries.** They can avail of the lowest taxes, labour and other costs to save money but this can undermine existing jobs in the higher-cost countries.
 - ▶ **Example:** Toymaker Hornby, maker of model trains and Scalextric, relocated all its manufacturing to China to save on labour and other costs.
- **Businesses can relocate production to countries with more lax regulation** to avoid strict labour, environmental or other laws that apply in their home countries.
 - ▶ **Example:** Many American companies have relocated factories across the border to Mexico to take advantage of very cheap labour as well as very low environmental and safety standards.
- **Increasing power of the World Trade Organisation (WTO).** National governments have less national control as organisations such as the WTO now make the trade rules. **The World Trade Organisation (WTO)** is responsible for setting the rules of international trade among its 150 member countries. It does this by organising **negotiations** between member countries to reduce protectionism and allow free trade. Once rules are agreed, every member is expected to comply.
 - ▶ **Example:** The EU banned the importation of genetically modified food from the USA because of health concerns. However the USA complained to the WTO which decided that it was a form of protectionism and imposed a fine of \$150 million a year on the EU. Under WTO rules, free-trade rules take precedence over national health concerns.
- **Globalisation.** The result of the massive growth of international trade and communications is globalisation. **Globalisation** refers to the emergence of the world as one single interconnected marketplace. Decisions or events in one part of the world can now quickly affect people in other parts of the globe. The main effects of globalisation on Ireland are:
 - **Greater consumer choice** as Irish consumers have increasing access to goods and services from a globalised marketplace.

Globalisation refers to the emergence of the world as one single interconnected marketplace.

OL

OL Short Q7
OL Long Q7, 12

HL

HL Short Q8, 9, 10
HL Long Q5

- **Intense price competition.** Global businesses can achieve economies of scale necessary to provide quality goods and services at low prices. This makes it harder for smaller Irish firms to compete. Cheaper imports can cause domestic industries to go into decline.
- **Increased opportunities for Irish firms to expand and compete in the global marketplace.**
- **Niche marketing becoming essential.** Irish firms have to identify profitable niches in the global market where they can excel. This also requires more investment in research and development (R&D) to compete against larger global competitors.
- **More jobs available in global companies** who are attracted to this country by IDA Ireland. These companies are a major source of employment and tax revenue. Indirectly, they also create further spin-off jobs among Irish suppliers and service providers.
- **Greater international mobility of labour.** The labour market is affected as it becomes easier for Irish workers to emigrate and for immigrants to come to Ireland to fill job vacancies in growing sectors of the economy.

6. Where are the major global markets in the 21st century?

European Union – As a very successful trading bloc, the EU has reduced the barriers, expense and risks involved in international trade for member countries. This gives Irish firms relatively easy access to markets in all EU countries.

Russia and former Soviet Union – The collapse of communism at the end of the 20th century means that markets in these countries are now open for business to Irish firms. However, doing business in these countries can be difficult, as government inefficiency and corruption remain a problem.

North America – The United States is the biggest exporter and importer of goods in the world. Together with Canada and Mexico, the North American region has massive consumer buying power. The main drawbacks for Ireland are the distances and trans-Atlantic transport costs involved.

Middle East – Oil wealth has increased demand and opportunities for Irish exports to the Middle East, especially food, healthcare products and professional services.

China & the Pacific Rim – The Pacific Rim countries are growing very fast and the region is becoming the most economically important in the world in the 21st century. Obstacles to trade in the Pacific Rim for Irish firms include long-distance transport costs, language and cultural barriers. Furthermore, many Asian governments such as China operate 'hidden barriers' to discourage foreign goods.

Developing countries – Other Asian countries, along with those of Africa and most of South America have yet to develop significant export opportunities, partly because they are handicapped by corruption, bad economic management and huge inequalities of wealth.

7. What are the main opportunities for Irish businesses in international trade?

Ireland is a small island in the Atlantic Ocean on the edge of Europe. However, despite this peripheral geographical position, we have a number of distinct advantages that can be used by businesses like Largo Foods to survive and prosper in the global economy of the 21st century. These advantages are:

- **EU membership:** Ireland is a member of the EU trading bloc, which allows us free access to a market of 480 million high-income consumers. This provides us with the opportunity to develop the **economies of scale** that would not be possible selling to a domestic market of just four million. Ireland's EU membership has also attracted hundreds of non-EU companies to set up operations here.
- **Euro currency** makes trade within the eurozone easy. As the euro is a very stable currency, the risk of exchange rate fluctuations with countries outside the eurozone is reduced.
- **Advances in technology** are making doing business internationally faster and easier. Video conferencing and online communications reduce the need for, and expense of, international business travel.
- **Educated citizens:** Ireland's relatively well-educated population provides us with a huge resource in terms of intelligent and adaptable entrepreneurs and workers. This is one of the main reasons why so many foreign hi-tech firms have located their factories in Ireland.
- **Language/culture:** As a predominantly English-speaking country, Ireland speaks the international business language. Furthermore, our ancient Gaelic and Celtic heritage – in terms of art, music and literature – provides us with a unique and attractive selling point to distinguish Irish products in a global market.
- **Green image:** To date, Ireland has had a unique image as a relatively green, unspoilt and pollution-free country. This has benefited us in terms of rapidly growing tourism, food products and the environmental services industries but needs to be protected for the future.
- **Low corporation taxes** on company profits attract many foreign firms to locate in Ireland even though they export most of their output to other countries.
- **Government assistance** to business such as grants, training and advice helps to reduce the cost and risk to TNCs of locating here. IDA Ireland has many years of experience in attracting TNCs to locate operations in this country and has a global network of contacts. **Trade missions** occur when a group of business people visit a foreign country to meet with potential customers and distributors and to negotiate deals and sales. Trade missions from Ireland are often organised by Enterprise Ireland.



OL

OL Short Q10
OL Long Q10

HL

HL Long Q6

Case Study: A high-flying global niche

Joining the EU brought many opportunities for Ireland. However, the arrival of **free trade** and the removal of **protectionist** barriers also led to the rapid decline of once-large Irish indigenous firms in areas such as furniture, textiles, clothing and footwear manufacturing because they could not compete with lower-cost European imports.

One textile firm that has survived and prospered in the new **global market** is the Botany Weaving Mill in Dublin's Liberties. This firm traditionally produced fabric to cover chairs and other furniture. To survive in the global marketplace, Botany could no longer compete on price so the firm changed its **marketing strategy**. With help from **Enterprise Ireland**, it saw an opportunity to become the global experts in producing specialist fabric for aircraft seats. This is a very technical area because, for safety reasons, aircraft seat covers have to be flame resistant, tough and extremely lightweight. They also need to be comfortable to sit on, pleasing to the eye, have extremely low static and also be stain-resistant. The firm used international trade fairs and trade missions to contact new customers.



Botany's strategy worked and the firm's customers now include over eighty airlines such as Aer Lingus, Virgin Atlantic, British Airways, Gulf Air and Qantas. Before entering the specialist aviation niche of the textile market, the business was struggling against competitors from dozens of lower-cost countries. Now it has just one competitor, a Swiss firm, and business is booming.

Recall and Review

1. Explain the terms in bold.
2. List the challenges that face a firm like Botany Weaving when trying to sell to international markets.

8. What are the main challenges for Irish business in international trade?

To survive and fully avail of the opportunities presented by the global marketplace, Irish firms like Botany Weaving and Largo Foods must successfully overcome certain barriers to trading successfully in this marketplace. These include the following:

- **High costs:** As an island on the edge of Europe, Ireland has higher transport costs than most other EU firms doing business in Europe. We also have very high labour costs and so Irish firms must operate as efficiently as possible to remain competitive.
- **Competition:** Irish firms tend to be small by international standards but still need to be able to operate competitively to the highest international standards. This may mean concentrating on filling niches in the global marketplace (such as fabric for airline seats) and competing on the basis of superior design, quality, branding or after-sales service, rather than price.
- **Lack of economies of scale:** Because the Irish market is small, Irish firms tend to be small by international standards. This makes it very difficult to develop the economies of scale needed to compete against larger firms producing mass-market products. Most Irish firms need to concentrate on niche markets where price is not the most important consideration for customers.

▶ **Example:** By concentrating on a specialist niche with few international competitors, Botany Weaving has survived and thrived in the global marketplace.

- ▶ **Foreign languages:** To sell successfully to foreign customers, Irish businesses need to be able to speak their language

▶ **Example:** Language problems caused difficulties when the US company General Motors launched the Opel Nova car in Spanish-speaking South American countries. In Spanish, Nova means 'Won't go' and the car was a flop. Similarly, Largo Foods must be careful about the brand name it uses for its products in foreign markets.

- ▶ **Cultural differences** between countries can present challenges and even result in lost sales or offended customers.

▶ **Example:** Using images of cows in advertising and packaging in India could cause offence to some Hindus who regard the cow as a sacred animal.

- ▶ **Product designs and standards** may need to be adapted to suit the safety laws and different requirements of foreign markets, especially those outside the EU.

▶ **Example:** A British car manufacturer tried to export cars to Saudi Arabia but failed miserably as the cars were not equipped with air conditioning, essential for a hot country.

- ▶ **Payment difficulties:** Collecting debts from customers in other countries is more difficult than at home, especially if they are far away or have a very different culture or legal system.

▶ **Example:** If a Taiwanese customer does not pay Largo Foods the money owed, it can be very difficult and expensive to go to Taiwan and try to collect the money.

- ▶ **Exchange Rates:** Further difficulties can be caused by fluctuations in exchange rates for different currencies.

▶ **Example:** When an American customer is buying goods from Largo Foods, they must buy euro currency to pay for them. If the value of the euro rises against the dollar on foreign exchange markets, it will cost the American customer more to pay for the Irish exports. For firms such as Largo Foods, this can result in lost sales and possible job cuts.

- ▶ **Protectionist barriers** such as customs duties, tariffs, different regulations and other requirements exist when trying to export to countries outside of the EU. This increases the cost of exporting and can make Irish goods less price competitive against local competitors.

▶ **Example:** Largo Foods and Botany Weaving both have to factor in the additional costs involved before deciding to export to customers in any country outside the EU.

OL

OL Long Q11

HL

HL ABQ

HL Long Q2, 3, 4



Key Concepts & Business Terms: After studying this chapter the student should be able to explain the following key concepts and business terms

- | | |
|------------------------------------|------------------------------|
| 1. International trade | 11. Protectionism |
| 2. An open economy | 12. Tariffs |
| 3. Imports (visible and invisible) | 13. Quotas |
| 4. Exports (visible and invisible) | 14. Embargoes |
| 5. Balance of payments | 15. Subsidies |
| 6. Balance of payments surplus | 16. A trading bloc |
| 7. Balance of payments deficit | 17. Deregulation |
| 8. Balance of trade | 18. World Trade Organisation |
| 9. Benefits of international trade | 19. Globalisation |
| 10. Free trade | 20. Trade missions |



Useful Websites

www.largofoods.ie
www.wto.org
www.botanyweaving.com

Leaving Certificate Practice Questions

OL

Ordinary Level

Ordinary Level – Section 1 – Short Questions (10 marks each)

1. Explain what is meant by the term 'open economy'.
2. Distinguish between balance of trade and balance of payments. [LCQ]
3. Distinguish between firms exporting and importing goods. Illustrate with an example of each. [LCQ]
4. If visible exports are worth €16,000m and visible imports €13,000m, does the country have a deficit or a surplus on its balance of trade?
5. Visible exports are €1,138 million, visible imports are €1,235. (a) Calculate the balance of trade. (b) State whether it is a surplus or a deficit.
6. Identify **two** benefits of free international trade.
7. Explain what is meant by a trading bloc and illustrate your answer with an example.
8. List **two** examples of protectionist policies that can be used by the European Union.
9. What is a tariff?
10. Identify **two** advantages Ireland has in the international marketplace.

Ordinary Level – Section 2 – Long Questions

1. What is international trade? (15 marks) [LCQ]
2. Explain what is meant by invisible exports and give **two** examples of invisible exports. (25 marks) [LCQ]
3. Outline **two** reasons why goods are imported into Ireland and give **two** examples of imported goods. (15 marks) [LCQ]
4. Describe what is meant by Ireland's balance of payments. (20 marks) [LCQ]
5. Visible exports are worth €16,000m, invisible exports €4,000m, visible imports €13,000m and invisible imports are €6,000m (a) Calculate the balance of trade. (b) Calculate the balance of payments. (c) Is the balance of payments in surplus or deficit? (15 marks)
6. Explain what is meant by free trade. (20 marks)
7. Identify and explain **two** reasons for the growth of international trade. (20 marks)
8. Outline the benefits of free trade for (a) consumers and (b) businesses in Ireland. (20 marks)
9. Outline the actions a country can take to protect its own industries from foreign competition. (15 marks)
10. Outline **three** opportunities faced by Irish firms engaged in international trade. (20 marks) [LCQ]
11. Discuss **three** challenges faced by Irish business engaged in international trade. (20 marks) [LCQ]
12. Describe **three** ways in which information and communications technology (ICT) has helped international trade. Use an example in each of your answers. (15 marks) [LCQ]


HL

Higher Level

Higher Level – Section 1 – Short Questions (10 marks each)

1. Explain what is meant by a country's balance of trade.
2. Illustrate **three** types of invisible export.
3. Using the following information, calculate (a) the balance of trade and (b) the balance of payments:
Total imports €16 billion Invisible exports €11 billion
Total exports €19 billion Invisible imports €9 billion
4. Identify **three** benefits of international trade to business.
5. Explain what is meant by the term 'protectionism'?
6. Distinguish between (a) a quota and an embargo and (b) a tariff and a subsidy.
7. List **four** examples of protectionist practices that can be used by governments.
8. What is a trading bloc? State **one** example.
9. Define deregulation. [LCQ]
10. Explain the term 'globalisation'.

Higher Level – Section 2 – Applied Business Question

Case Study: Slievemore cheese company

The Slievemore Cheese Company is an agribusiness firm producing high-quality cheese products. Currently, all of the firm's sales are in Ireland. However, Lynn Keogh, the firm's managing director, feels that sales in Ireland have reached maturity and that continued business growth will have to come from export markets.

Lynn instructed Slievemore's marketing manager to prepare a market research report on possible foreign market opportunities.

The report has now been completed and has identified a number of large supermarket chains in the UK, France and Russia who may be interested in stocking the firm's products. However, the report pointed out that marketing staff in the firm have very poor foreign language skills. The firm is also highly geared and cannot afford to invest large sums trying to build up sales in a foreign market.

International trade has its risks and Lynn is keen to tackle just one foreign market initially. However, she is unsure about what country to select first. The UK is English-speaking, France is in the eurozone while Russia has the largest potential market due to its population.

Lynn has heard lots of stories of big companies who have made expensive mistakes when trying to sell goods to foreign countries. She is therefore keen to get advice from Enterprise Ireland about how to successfully manage the move into export markets.



1. Evaluate the main opportunities open to Slievemore for engaging in international trade. *(20 marks)*
2. Analyse the possible barriers to trade that Slievemore could encounter when trying to enter new export markets. Refer to the text in your answer. *(40 marks)*
3. Describe the possible role of Enterprise Ireland in assisting Slievemore as it prepares to trade internationally. *(20 marks)*

Higher Level – Section 2 – Long Questions

1. Outline the significance of international trade for Ireland. *(15 marks)* [LCQ]
2. Analyse the problems that Irish firms face when trying to compete globally. *(30 marks)*
3. Analyse the significance or otherwise of international trade for Ireland. Refer to the development of trading blocs and transnational companies in your answer. *(35 marks)* [LCQ]
4. Discuss the changing nature of the international economy. Include in your response the effects it has on Irish business. *(30 marks)* [LCQ]
5. Describe the role of the World Trade Organisation in promoting international trade. *(20 marks)*
6. Identify and explain the advantages that Ireland has when competing in the global marketplace. *(20 marks)*

Chapter 24

Ireland & the European Union

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▲ These are also Key Study Questions ▲

Case Study: Kingspan



Kingspan PLC specialises in manufacturing insulation and energy-saving products used in the construction of environmentally friendly buildings. Headquartered in County Cavan, it started off as a small engineering business. However, Ireland’s membership of the European Union provided the business with opportunities to grow and develop.

Kingspan’s management took a strategic decision to reduce the risk of relying just on the small and vulnerable Irish market. They put together a **strategic plan** to sell their products to every country in the EU. By spreading the company’s sales among many different countries, management wanted to reduce the risk of relying on just one market.

Kingspan’s strategic plan has proved very successful and today it sells its products to customers in every country in the EU. This success has encouraged the firm to think globally and it has continued to expand further and now also sells its products in Russia, Canada, the USA and in the Far East.

Kingspan is run by a **board of directors** that meets approximately once a month to provide strategic direction to the business and to make important decisions such as the appointment of senior managers, to approve large investment decisions or to sell valuable assets. The board employ a **chief executive officer** (CEO) to oversee the day-to-day management of the business. Currently Kingspan uses a product **organisational structure**.

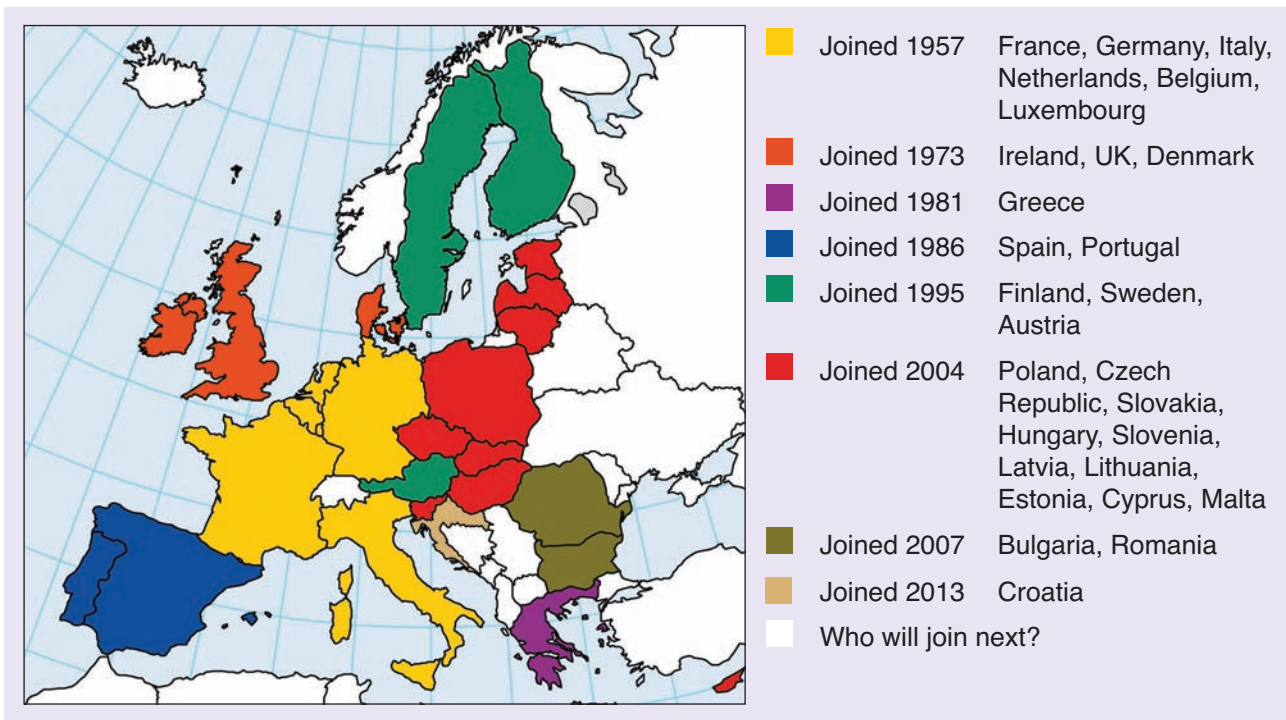
Kingspan PLC now operates in dozens of countries around the world, but the EU is the most important market for its products.

Recall and Review

Explain the terms highlighted in bold.

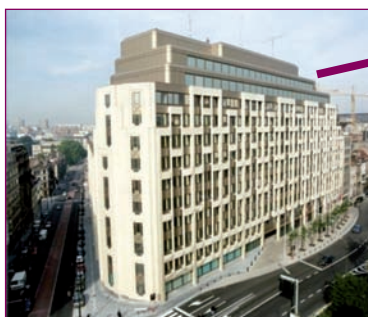
1. What is the European Union?

Ireland's membership of the European Union has been very important to Kingspan's success. The **European Union** is an international trading bloc and political alliance of European nations designed to promote closer political, economic and social co-operation among its member countries. Each member country contributes tax revenue towards the cost of running the EU and, in return, shares economic and political policies intended to benefit all the members.



2. How are EU policies and laws made?

EU policies and laws are made as a result of decisions taken by the EU's 'institutional triangle', composed of:



The EU Commission, a type of EU civil service.



The Council of the European Union, which represents national governments.



The EU Parliament, which represents the citizens of the Union.

The Council of the European Union (Council of Ministers)

The **Council of the European Union** (formerly the Council of Ministers) is the EU's most important decision-making body and is made up of representatives from each member state government. Its meetings are attended by the relevant minister from each member state for the topic being discussed, e.g. if foreign policy is to be discussed, the foreign affairs minister from each country will attend. The government of each EU country takes turns presiding over the Council for a six-month period. The main functions of the Council are:

- Sets goals and plans for the EU.
- Approves the budget for the EU together with the European Parliament.
- Approves laws drafted by the Commission and in conjunction with the European Parliament (known as 'co-decision').

Council of the EU

- Most important decision making body in the EU.
- Represents national governments.
- Qualified majority voting.
- Important decisions must be unanimous.

The European Commission

The **European Commission** is the institution responsible for the day-to-day management of the European Union. The **EU commissioners** are the senior managers who are appointed by national governments to run the European Union. Each commissioner is allocated a different Directorate-General (DG), which is an area of responsibility such as transport, competition, agriculture, social affairs, etc.

The main functions of the European Commission are:

- **Proposing new laws:** The Commission is the only EU institution that can initiate new laws but must consult with interest groups and experts on any proposed new legislation to ensure that the interests of the European Union as a whole are served.
- **Implementing EU laws and policies:** The Commission supervises member states to ensure all EU legislation is fully implemented. If member states do not comply, the Commission can take a case against them to the European Court of Justice.
- **Managing the EU budget:** The Commission decides on the amount of money required to run the EU and manages spending.

The European Parliament

The **European Parliament** is directly elected by EU citizens to act as a supervisory 'watchdog' over all aspects of the EU's activities. It is made up of over 700 MEPs. MEPs are Members of the European Parliament who are elected in EU-wide elections every five years. The Republic of Ireland elects 13 MEPs. Unlike other parliaments, the European Parliament does not have the power to draft its own legislation. This is known as the EU's 'democratic deficit'. The European Parliament:

- **Represents:** MEPs are directly elected to represent the views of the people of the EU.
- **Legislates:** The Parliament debates and votes on all new policies and laws proposed by the Commission. Without the Parliament's approval, proposals cannot become law.
- **Supervises:** The Parliament supervises the running of the EU such as:
 - **Funding and spending activities** of the EU. This includes approving the EU budget in conjunction with the Council of the European Union.



The European Parliament

- **Interviewing** all candidates for the jobs as EU Commissioners and has the power to dismiss the entire Commission if unhappy with its functioning.

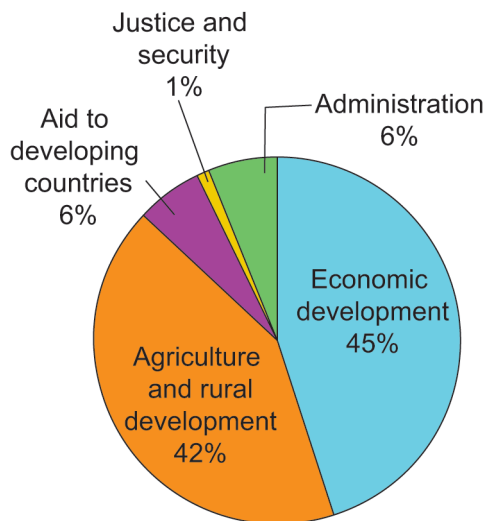


Fig. 1 Where the EU spends its budget

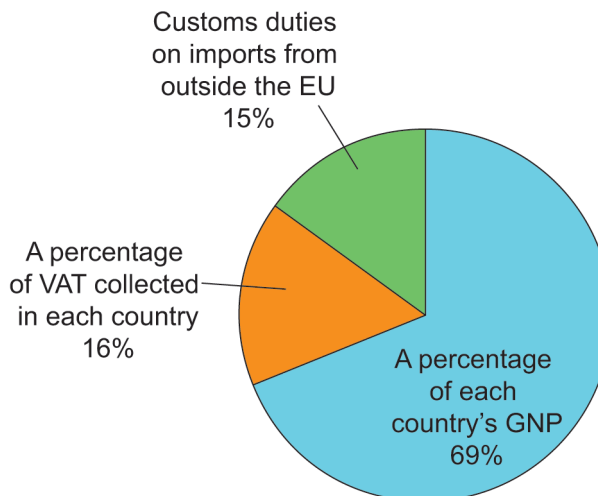


Fig. 2 How the EU is financed

The Court of Auditors

The **Court of Auditors** is responsible for ensuring that the EU budget is spent efficiently and for the purpose intended. It checks that all the European Union's revenue has been received from member countries and that all the expenditure incurred is lawful and has been well managed. It can **audit the accounts** of any organisation that is handling EU funds, and looks for areas where there may be possible waste, mismanagement or fraud with EU funds.



OL Short Q1, 2



HL Short Q1
HL Long Q2

► **Example:** The Court of Auditors discovered that the EU Commission gave money to the Irish government to conserve a scientifically and ecologically important bog in Co. Kilkenny. At the same time, however, another part of the Commission was giving money for the same bog to be harvested for turf fuel.



The European Court of Justice

The European Court of Justice

The **European Court of Justice** is responsible for ensuring that EU laws are applied correctly in all EU countries. It is made up of one judge from each of the member states. It tries to iron out any differences between European and national laws. When there is a dispute over EU law, governments, companies and individuals can bring cases to the Court for resolution.

► **Example:** The EU Commission took the Irish government to the European Court of Justice for improperly spending EU agriculture funds. Ireland has also been prosecuted for ignoring EU laws requiring that the quality of fishing waters be protected.

The European Central Bank

The **European Central Bank (ECB)** is the central bank for all countries that have adopted the euro as their common currency. Based in Frankfurt, its main roles are to keep inflation low and to safeguard the value of the euro. It does this mainly by setting the interest rates that apply in the eurozone. It also gives loans to Eurozone governments who get into financial difficulties.

The ECB sets interest rates for the eurozone.

3. How are new EU laws introduced?

There are five stages involved in introducing new laws in the EU:

1. Proposal by the Commission

Proposals for new laws are prepared by the European Commission.

2. Consultation with the EU Parliament and relevant stakeholder groups

The proposal is sent for discussion to the European Parliament, national governments and any other relevant bodies. At this stage considerable lobbying and campaigning may be undertaken by people, such as national governments, MEPs, and special interest groups. **Lobbying** refers to a deliberate effort to influence decision-making by promoting a particular point of view. Many **interest groups** such as IBEC and the IFA have staff based in Brussels specifically to influence EU legislators.

3. Redrafting by the Commission

Comments and feedback are received by the Commission which may make changes to the original proposal in light of arguments made.

4. Approval by the Council

A final version of the proposed law is sent by the Commission to the European Council for approval or rejection.

5. Implementation by the Commission and national governments

If accepted, the Council of the EU (Council of Ministers) will also decide how the law should be implemented. This can be done by issuing a **regulation**, a **directive** or a **decision**.

- **EU Regulations** are legally binding decisions that become effective in law immediately in all EU states and take precedence over national laws. Changes in Single Market rules are usually introduced as EU Regulations.
- **EU Directives** set out a goal to be achieved by member states and a deadline for its achievement. However, each country is **free to decide** how best to achieve the goal. This allows each country to introduce or amend its own laws to achieve the goal. Directives aim to **harmonise** laws among EU members.
- **EU Decisions** are only binding on specifically named countries, companies or organisations.

▶ **Example:** In the past, the Commission has issued Decisions declaring that Irish companies such as CRH and Aer Lingus must pay fines for unfair competitive behaviour.

- EU Regulations are immediately binding in law.
- EU Directives set out a goal to be achieved by all member countries but methods of achievement are left to the discretion of national governments.
- EU Decisions only apply to specific countries or organisations.



OL Long Q1, 2



HL Long Q1, 3



4. What is the role of special interest groups in EU decision-making?

Case Study: Harley-Davidson



The **European Commission** proposed a ban on Harley-Davidson and similar motorbikes on the grounds that they were 'unsafe'. When motorbike enthusiasts heard of this proposal, they formed an interest group and began lobbying MEPs and the Commission to persuade them to drop the plans. The campaign succeeded as the Commission dropped the proposal just before it was due to go to the European Council for final approval.

Many different interest groups try to influence the EU's decision-making process.

EU laws can have major effects on governments, businesses, industries, organisations and individuals. As a result, many interest groups try to influence these decisions to suit their own members. These include:

- **National governments**, who will always try to get support for their own views and to protect national interests.
- **Industry bodies** representing particular industries such as chemicals, automobiles or agriculture.
- **Employer organisations** such as IBEC.
- **Trade unions** representing workers.
- **Large transnational companies**.
- **Consumer protection organisations**.
- **Environmental organisations**.
- **Regional groups** representing specific regions of the EU.
- **Individuals** or small groups with specific concerns, such as equality or health issues.

Methods of persuasion used by interest groups

Interest groups can influence EU decision-making in the following ways:

- **Lobbying the key decision-makers** – these are the ministers, commissioners and MEPs.
- **Setting up an office in Brussels and Strasbourg makes lobbying easier.** The larger interest groups have permanent staff working close to the Commission and Parliament to monitor all EU developments and to stay close to the decision-making process.
- **Using public relations** and other information campaigns can help to publicise an interest group's views in order to win over public opinion and, hopefully, influence the decision-makers.
- **Protests and public demonstrations** are sometimes used by interest groups to attract media attention and get publicity for their views.

5. What are the main EU policies?

THE EU HAS A NUMBER OF IMPORTANT POLICIES TO HELP IT ACHIEVE ITS OBJECTIVES	
Policy	Objective
Single European Market policy	Promotion of free trade between member states
European Monetary Union policy	Promotion and protection of the euro currency
Social policy	Protecting worker, consumer and citizen rights
Common Agricultural Policy	Developing agriculture and rural life
Common Fisheries Policy	Developing and protecting fishing
Environmental Policy	Ensuring environmental protection
Structural policy	Promoting regional economic development
Competition policy	Promoting competition in the marketplace

Single European Market policy

Case Study

Before the EU's Single European Market policy was introduced, firms like Kingspan had to complete lots of paperwork when exporting Irish goods to other EU countries. Different customs forms in different languages had to be completed for each country and the whole process was a very slow and complicated affair. But the introduction of the single market has eliminated most of the paperwork involved and has made exporting much simpler. There are no more document checks or customs delays at frontiers, aside from occasional searches for illegal goods. This allows imports and exports to reach customers faster and reduces business transport costs.

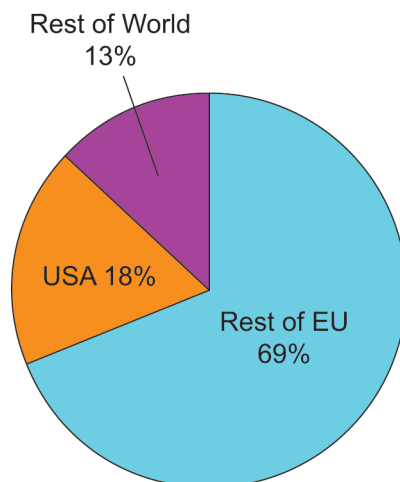


Fig. 3 Where Ireland's exports go

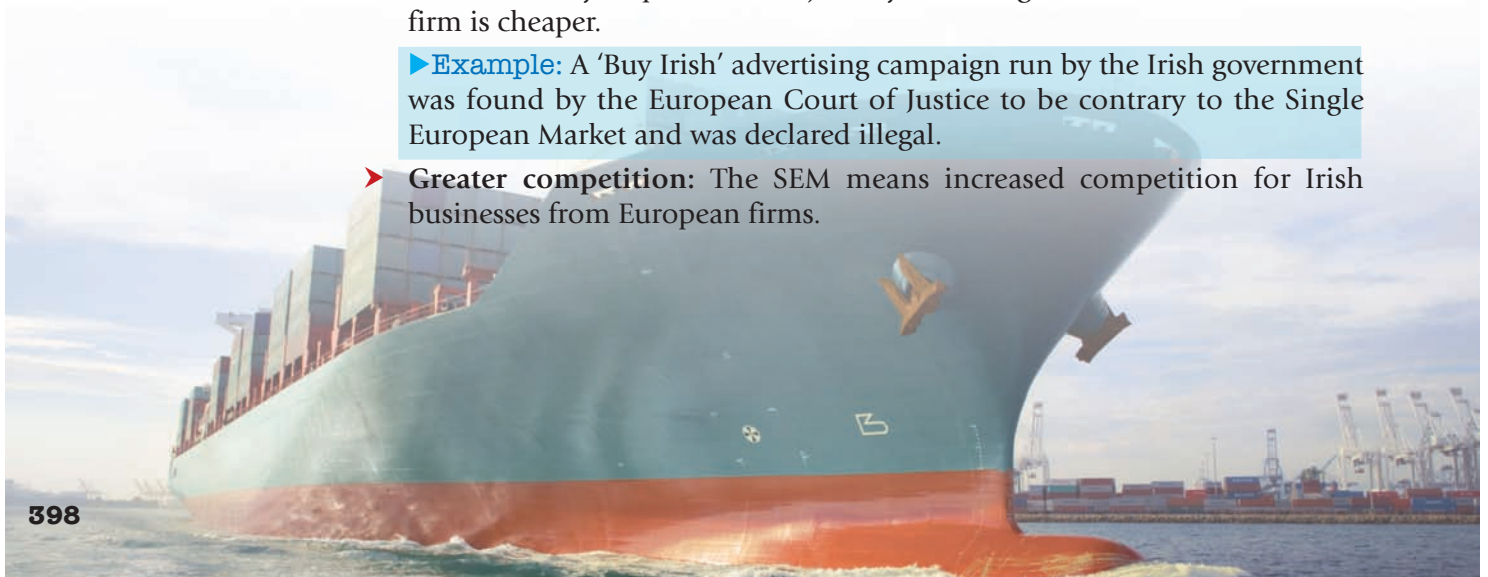
The purpose of the **Single European Market (SEM) policy** is to remove barriers to the free movement of goods, services, people and capital between member states. It is intended to boost free trade within the Union by allowing businesses to treat the entire EU as their home market.

Benefits of the SEM for business

- **Creation of a huge market:** Nearly 480 million consumers across the EU can be easily accessed by Irish firms, allowing them to export and benefit from economies of scale and reduced dependence on the small Irish market.
- **Free movement of goods:** Trade barriers such as frontier controls, tariffs, physical checks on goods at border crossings and regulations regarding product testing have been removed. Standards are being harmonised on thousands of products, ranging from chocolate and lawnmowers to cars and bananas. These measures are intended to make it easier for a firm in one EU country to do business in any other member state. However, governments are still allowed to restrict the movement of some goods on health or security grounds.
- **Free movement of capital:** Firms and citizens can invest their money wherever it can earn the greatest return within the EU. As a result, Irish interest rates move in line with those in other EU countries, especially Germany. For example, it is possible for Kingspan to buy foreign businesses, open a French bank account or negotiate a loan from a Dutch bank.
- **Free movement of labour:** EU citizens are free to travel, live and work in most member countries without immigration or passport controls.
- **Tax harmonisation:** EU governments have harmonised some of their tax rates, especially on goods and services. For example, VAT in all EU countries will eventually be at the same rate of 15%.
- **Protectionism for EU firms:** For goods imported from outside the EU, a common external tariff is applied. It helps to protect firms like Kingspan from cheap competition from outside the European Union.
- **Foreign direct investment:** Membership of the EU and access to the Single European Market has made Ireland an attractive, low-tax European base for many transnational firms. This has created thousands of jobs in Ireland.

Drawbacks of the SEM for business

- **Public procurement:** Governments are not allowed to show favouritism towards their own firms when buying goods. If the Irish government wants to buy uniforms for the army it must buy from the most competitive source and cannot try to protect Irish jobs by favouring an Irish firm if an Italian firm is cheaper.
 - ▶ **Example:** A 'Buy Irish' advertising campaign run by the Irish government was found by the European Court of Justice to be contrary to the Single European Market and was declared illegal.
- **Greater competition:** The SEM means increased competition for Irish businesses from European firms.



European Monetary Union (EMU) policy

Case Study

Before the European Monetary Union (EMU) policy was introduced, firms like Kingspan that engaged in international trade had to use different currencies when buying goods in different countries. They also had to deal with changing currency exchange rates, making financial planning more complicated and risky. The EMU resulted in the introduction of the euro as a common currency shared by most EU members. For businesses like Kingspan, using the euro makes buying and selling goods among countries very easy.



The Single European Market allows for the free movement of goods, money and people within the EU. However, to work effectively, the single market requires a common currency within the EU. **European Monetary Union (EMU)** refers to the introduction of the euro as a common currency for EU members. Most EU countries have become part of the EMU. **The eurozone** is the name given to those EU countries that have replaced their national currencies with the euro currency.

EMU introduced the euro as a shared currency among many EU countries.

To become a member of the eurozone, member countries must meet economic conditions set by the European Central Bank. These include strict rules about having low inflation and tight control over government spending and borrowing.

Benefits of EMU policy for business

- **International payments** within the eurozone are simpler, cheaper and free from exchange-rate fluctuations.
- **Increased trade within the eurozone has been stimulated** creating additional jobs for European workers.
- **Low inflation.** The ECB has a policy of maintaining low inflation and price stability. Low inflation also makes business planning easier.
- **Foreign direct investment** and jobs are attracted to Ireland due to our Eurozone membership.
- **Price comparisons** are easier to make. This makes it easier for firms to source raw materials from the cheapest Eurozone suppliers.
- **International travel** within the eurozone is easier as people no longer need to change currencies when moving between countries. Price comparisons between different countries have also become easier.
- As a member of the Eurozone, the Irish government has to maintain responsible taxation and spending policies. This helps to maintain a **more stable economic environment for businesses.**

Drawbacks of EMU policy for business

- **Ireland's biggest export customers, the UK and the USA, are not in the eurozone.** If the euro increases in value against the pound sterling and the US dollar, this makes Irish exports to the UK and USA more expensive and uncompetitive.

EU social policy (social charter)

Besides promoting international trade and business, the EU has also brought in measures to protect the rights of workers and consumers, and to create a better quality of life for all its citizens. **EU social policy** is intended to improve and harmonise working conditions and consumer rights throughout the EU.

Benefits of EU social policy for business

- **Improved work conditions** through the implementation of minimum standards of working hours, holiday entitlements, protection and safety of employees, especially for children and adolescents at work.
- The **European Social Fund** provides funding to train and retrain workers and increase their adaptability to change. Many third-level courses in Ireland have been funded by the ESF.
- EU social policy has also brought about greater **equality of treatment for men and women**, especially in the area of employee rights. The European Social Fund finances the training and retraining of workers and young people.
- **Consumer rights** have been improved significantly as EU social policy directives are implemented in Ireland through laws such as the Consumer Protection Act and the Sale of Goods & Supply of Services Act.



Drawbacks of EU social policy

- **Increased costs:** To comply with rules and regulations resulting from the social policy, businesses such as Kingspan are subject to greater costs and expenses. This particularly affects smaller businesses.

EU Common Agricultural Policy (CAP)

The **Common Agricultural Policy (CAP)** is designed to make the EU self-sufficient in food and maintain the incomes of farmers and rural communities. It achieves this by modernising farming practices and stabilising the prices of agricultural produce. The **Common Fisheries Policy** aims to improve the management of the community's fishery resources. It is mainly concerned with ensuring freedom of access to EU waters for member states, modernisation of the industry and conservation of dwindling fish stocks due to over-fishing.



Benefits of the CAP for business

- A **single market** has been created for agricultural products with guaranteed prices for farmer producers.
- EU farmers have been protected against **low-cost food imports from outside the EU** through various protectionist measures such as quotas and tariffs.
- The CAP has also **encouraged the development** of Irish agribusiness into a major exporting industry. This has enabled food firms such as Kerry Group and Glanbia to expand and become very large international businesses.
- **Food production for the EU is more secure**, while food quality has been raised to very high standards. The **Common Fisheries Policy** is attempting to conserve fish stocks from over-fishing.

The CAP is very important to the primary sector of the economy.

- **Farmers' incomes have increased**, benefiting the national economy due to the relatively large size of our agricultural industry.
- Large CAP payments to farmers by the EU have **improved Ireland's balance of payments**.

Drawbacks of the CAP for business

- Grants for the modernisation of agriculture and economies of scale has led to the **loss of many small farm businesses** in favour of large-scale intensive agriculture.
- Mechanisation and rationalisation of the industry has led to a **reduction of direct employment in agriculture**.
- The CAP is the EU's **most expensive policy**, costing EU taxpayers billions of euro every year.

EU environment policy

Case Study

Before joining the European Union, building standards in Ireland were very low and the market for insulation and energy-efficiency products was very small. However, over the years the EU has introduced regulations and directives requiring member countries to improve their environmental standards. This has led to increased demand for environmentally friendly products across the EU and, as a producer of insulation and energy-saving products, has created business opportunities for Kingspan.

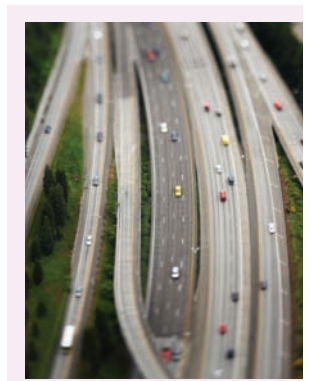


Increased foreign trade and economic growth have a number of serious environmental side-effects, including increasing amounts of waste and carbon emissions. **EU environment policy** aims to ensure that economic development within the Union is ecologically sustainable and is not at the expense of the quality of Europe's environment. It does this by:

- Making governments and businesses responsible for their impact on the environment through the **'polluter pays' principle**.
- Ensuring that EU decisions and EU-funded projects take into account the **environmental consequences** of the actions involved.
- Making sure that all large industrial or infrastructure projects **are evaluated** in terms of their environmental impact before planning approval is given.
- Promoting the move towards the **use of renewable sources of energy** such as wind and solar power instead of fossil fuels.

EU structural policies

EU structural policies are designed to improve the competitiveness and wealth of the EU's poorer regions and vulnerable industries. In the past, Ireland was a major beneficiary of these funds but today most of this aid is directed towards the poorer regions of eastern and southern Europe. Structural funds are provided to countries mainly through the **European Regional Development Fund**, the **European Social Fund** and the **European Cohesion Fund**.



- The **European Regional Development Fund** aims to reduce differences between rich and poor regions of the EU, especially areas lagging behind in development or those in industrial decline. Finance is targeted at improving economic infrastructures (e.g. roads, ports, sewerage systems and telecommunications), improving production methods, developing new industries, reversing economic decline and tackling unemployment.
- The **European Cohesion Fund** provides grants to economically poorer countries for infrastructure and environmental improvement projects.

EU competition policy

The larger the number of firms competing in a market, the more likely consumers are to benefit from a wider choice of high-quality goods and competitive prices. **EU competition policy** sets out rules designed to ensure free and fair competition between firms in the Single European Market. The European Commission only investigates complaints of anti-competitive behaviour by large companies and where trade between EU member states is affected. Firms found guilty by the EU of unfair practices can face large fines. EU competition policy rules cover issues such as:

OL

OL Short Q3, 4
OL Long Q3, 4, 5, 7

HL

HL Short Q2, 3, 4,
5, 6, 7
HL Long Q4, 5, 6,
8, 10

- **Large mergers or takeovers:** These must be approved by the EU Commissioner for Competition to ensure they do not violate the EU's competition policy.
 - ▶ **Example:** The EU investigated Tesco's takeover of an Irish supermarket chain to ensure it conformed to the principles of free and fair competition.

- **Monopolies and cartels:** Firms are not allowed to form anti-competitive cartels to fix prices, share markets, or block new firms from entering the market. **Dominant firms** in a market are not allowed to use their power to increase consumer prices, restrict the growth of smaller firms or prevent new firms entering the market.

▶ **Example:** Irish food company Greencore's offices were raided by EU officials as part of an investigation into unfair competition arising from its dominant position in the Irish sugar market. It was subsequently fined €8m by the EU Commission for abusing its monopoly position in the market.

- **Governments** are prohibited from giving special aid, such as subsidies, to firms if this is likely to give such firms an unfair advantage over their European competitors.

▶ **Example:** The EU restricted the amount of cheap financial aid the Irish government could provide to the Irish Steel Company when it was in financial trouble.

- **Deregulation of monopolies:** Governments are required to allow competition into monopolies, whether state-owned or private.

▶ **Example:** Previously, no one was allowed to compete against state-owned firms like ESB, RTÉ, VHI and Bus Éireann. Under EU rules, all these markets are now open to competition.



6. What are the benefits of EU membership to Ireland?

Businesses

- Irish firms have easy access to a large and wealthy market. This helps firms to grow, achieve greater economies of scale and offer lower prices.
- **Single European Market rules** mean that administrative costs and bureaucracy

previously involved in international trade with other EU countries are significantly reduced.

- Euro currency makes trade and travel within the EU far easier for businesses and consumers.
- **EU grants to industry** have helped many Irish businesses to grow.
- Irish **agriculture** continues to receive large amounts of financial support through the Common Agricultural Policy.

Employees

- Membership of the EU has encouraged many **TNCs to invest in Ireland** by setting up their EU operations here. This has **created thousands of direct and indirect jobs** and pumped billions of euro into the Irish economy.
- EU social policy has enhanced **employees' legal rights**.

Consumers

- Consumers benefit from being able to use the same currency when travelling in many other EU countries.
- Competition policy has provided **increased choice** and keeps prices low.
- EU directives have resulted in strong **consumer protection legislation** being introduced.

Economy and environment

- EU structural funds help to pay for investment in roads and public transport infrastructure.
- Membership rules of the eurozone mean that Irish governments have to follow **more responsible taxation and spending policies**. Large budget deficits are not allowed among eurozone members.
- The Irish economy has benefited from billions of euro in CAP and structural fund payments over the past few decades.
- EU policies have forced Irish businesses and the government to become much more environmentally responsible. Renewable energy and greater levels of recycling and waste reduction are promoted.



OL Short Q5
OL Long Q6, 8

Case Study: Microsoft

The giant American **transnational company** Microsoft employs over 1,000 staff in its EU base in Dublin. Even though most of the software products it produces in Ireland are exported to other EU countries, it chose to locate its EU base in Dublin because:



- Ireland's access to the EU's **Single European Market** makes exporting to other EU countries easy.
- Ireland's use of the **euro** as its currency makes paying and getting paid in the EU easy.
- Ireland has low **corporation tax** on company profits compared to many other countries.
- Ireland has a skilled, computer literate workforce.

If Ireland was not a member of the EU, transnational companies like Microsoft would not set up their European exporting bases in this country. This would mean that there would be far fewer jobs, far less tax revenue for the government to pay for State services, and Ireland would be a far less prosperous country.

Recall and Review

1. Explain the terms highlighted in bold.
2. Evaluate the benefits of the Single European Market to Ireland.
3. Evaluate the benefits of the European Monetary Union (EMU) to Ireland.

7. What challenges face Ireland and the EU in the future?

Specific issues facing Ireland as a member of the EU

- **Ireland needs to take greater advantage of the eurozone.** Despite having access to the EU's huge Single European Market, Ireland still does more than half of its trade with non-eurozone countries, especially the UK and the USA.
- **Ireland needs to conform with EU rules regarding proper management of the economy.** Poor government regulation and excessive spending by Irish governments in the past caused a major banking and property crisis. The resulting collapse in tax revenues meant that the Irish government was forced to request emergency loans from the European Central Bank. The ECB provides the loans but with strict conditions attached about how Irish governments manage the economy in future.
- **Net contributor to EU budget:** Every member of the EU is required to contribute a percentage of its annual income towards the EU budget. In the past, for every €1 Ireland contributed to running the EU, we received €4 in return in grants and other payments, mainly from the CAP and regional policies. However, as Ireland has become wealthier, it has become a net contributor of funds to the EU budget, that is, Ireland will pay in more than we receive back.
- **Increased competition for investment:** More recent EU member countries from eastern Europe have much lower labour costs and low levels of corporate taxation. This will make IDA Ireland's job of attracting TNCs to Ireland potentially much harder than before.



Issues facing the entire EU

- **Protecting the stability of the euro currency** by ensuring that all members of the eurozone follow responsible economic policies.
- **Tax harmonisation** means having the same rates of taxation in all EU countries. Powerful, high-tax countries such as France and Germany do not like countries such as Ireland having low corporation taxes which tempt TNCs away from their own countries.

- **Institutional reform:** With the expansion of the EU to over two dozen countries there is a need to reform EU structures and institutions to ensure greater democracy, accountability and transparency, as well as greater **decentralisation** of power.
- **Budget reform:** Further reform of the very expensive Common Agricultural Policy will be necessary to reduce its cost to the EU taxpayer and to free up funds for other areas, such as R&D, environmental protection, enterprise development and the fight against international crime and terrorism.
- **Tackling climate change** and promoting sustainable development and environmental protection across industry, agriculture and other areas of the economy is a major priority for the EU.

OL

OL Short Q6

HL

HL Short Q8

HL ABQ

HL Long Q7, 9, 11

Key Concepts & Business Terms: After studying this chapter the student should be able to explain the following key concepts and business terms

- | | |
|-----------------------------------|--|
| 1. European Union (EU) | 16. Eurozone |
| 2. Council of the European Union | 17. EU social policy |
| 3. European Commission | 18. EU Common Agricultural Policy (CAP) |
| 4. EU Commissioners | 19. EU Common Fisheries Policy |
| 5. European Parliament | 20. EU environment policy |
| 6. MEPs | 21. EU structural policies |
| 7. Court of Auditors | 22. European Regional Development Fund |
| 8. European Court of Justice | 23. European Social Fund |
| 9. European Central Bank (ECB) | 24. European Cohesion Fund |
| 10. Lobbying | 25. EU competition policy |
| 11. EU Regulations | 26. Benefits of EU membership |
| 12. EU Directives | 27. Challenges facing Ireland and the EU |
| 13. EU Decisions | |
| 14. Single European Market (SEM) | |
| 15. European Monetary Union (EMU) | |



Useful Websites

www.kingspan.com
www.europa.eu
www.harley-davidson.com
www.idaireland.com

Leaving Certificate Practice Questions

OL

Ordinary Level

Ordinary Level – Section 1 – Short Questions (10 marks each)

1. Explain the role of the EU Commission.
2. Outline the role of the EU Court of Auditors.
3. Name **two** important EU policies.
4. Identify **two** effects of the Single European Market on Irish business. **[LCQ]**
5. List **two** benefits of EU membership for Irish business. **[LCQ]**
6. List **two** challenges facing the future of the EU.

Ordinary Level – Section 2 – Long Questions

1. Describe the roles of the main EU institutions in the decision-making process. Illustrate your answer using an example. *(20 marks)*
2. Explain the role of the Council of the European Union in EU decision-making. *(15 marks)*
3. List **three** EU policies and explain the role of one of them. **[LCQ]** *(20 marks)*
4. Outline **three** effects of the Single European Market on Irish firms. **[LCQ]** *(15 marks)*
5. Illustrate how having a single European currency assists firms exporting to other EU countries. *(20 marks)*
6. Explain what is meant by ‘international trade’ and why the EU is important for Irish trade. **[LCQ]** *(20 marks)*
7. Outline the purpose of the EU’s Competition Policy. *(20 marks)*
8. State **three** advantages to Ireland of membership of the European Union. **[LCQ]** *(15 marks)*

HL

Higher Level

Higher Level – Section 1 – Short Questions (10 marks each)

1. Identify the EU institution that can issue fines for breaches of EU law.
2. List **three** aims of the Single European Market.
3. Identify two disadvantages for Ireland of the Single European Market.
4. List **one** advantage and **one** disadvantage of the CAP to Ireland.
5. Explain what is meant by the free movement of labour in the EU.
6. The Single European Market helps business because it . . . **[LCQ]**
7. Outline the purpose of the European Union’s Competition Policy. **[LCQ]**
8. List **two** challenges facing Ireland as a member of the EU.

Higher Level – Section 2 – Applied Business Question 1

Case Study: Naturevite Healthcare

NatureVite Healthcare Ltd. was started by Eugene Redmond when he identified a niche in the market for an Irish producer of natural vitamin and mineral supplements. 'The Irish market was dominated by brands from other EU countries,' according to Eugene, who studied biochemistry in university. 'After conducting some market research I knew there was room in the vitamins market for a quality Irish product.' So, with help from Enterprise Ireland, he set up his own business.



NatureVite Healthcare began by selling to small grocery stores and pharmacies before persuading the big supermarkets to stock their products. The company now supplies all the leading Irish supermarkets. The company does all its own R&D, manufacturing, quality control, marketing, distribution and package design.

Eugene emphasises the importance of good product packaging. 'In this market I think using bright colours and a distinctive design is important to give our company's products a definite sense of identity and vibrancy. 'NatureVite now has a sales turnover of nearly €15 million, a staff of 100 and over 50 different products ranging from vitamin and mineral food supplements to skin-care and baby-care products.

NatureVite is a member of a healthcare trade association that represents the interests of all the Irish firms in this industry. Changes to EU laws regarding permitted ingredients and labelling are having a big impact on the vitamin and supplement market and Eugene is concerned about the possible negative implications for his business of some of the changes proposed by the European Commission.

Sales in the Irish market are now beginning to level out and Eugene is aware that the firm will need to look abroad for new markets and business opportunities. He is particularly keen for NatureVite to take advantage of the opportunities offered by the EU's Single European Market. He is considering targeting France and the UK initially.

1. Compare the challenges NatureVite Healthcare will face in exporting to Britain compared to France. (30 marks)
2. Explain how NatureVite's trade association could influence EU decision-making. Refer to the main EU decision-making bodies in your answer. (30 marks)
3. Evaluate the potential implications for NatureVite Healthcare of **two** EU policies. (20 marks)

Higher Level – Section 2 – Long Questions

1. Explain the decision-making process of the European Union. Include the relevant institutions in your answer. [LCQ] (25 marks)

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2. Explain the functions of **two** of the following: (a) The European Parliament, (b) The Council of Ministers/EU Council, (c) the European Commission. **[LCQ]** (20 marks)
3. Distinguish between an EU (a) regulation, (b) directive and (c) decision. (15 marks)
4. (a) Discuss the main elements of the EU's Single European Market.
(b) Evaluate the significance of the Single European Market for Irish business. **[LCQ]** (40 marks)
5. Illustrate with a relevant example the impact of a European Union policy on economic activity in Ireland. **[LCQ]** (20 marks)
6. Discuss the importance for Ireland of any **two** of the following EU policies: (a) Common Agricultural Policy, (b) Competition Policy and (c) Social Policy. (30 marks)
7. Evaluate the opportunities and challenges for Irish business in the EU market. **[LCQ]** (20 marks)
8. Discuss the main reasons why a country would want to join the EU. (30 marks)
9. Explain the opportunities **and** challenges for Irish business as a result of new member states joining the European Union. **[LCQ]** (25 marks)
10. With reference to the various EU policies, evaluate the pros and cons of EU membership for Ireland. (40 marks)
11. Outline the possible implications for Ireland of the harmonisation of EU corporation tax rates. (20 marks)

Chapter 25

Global Business

Contents

- 1. What are transnational corporations (TNCs)? 410
- 2. What are the reasons for the development of global companies? 410
- 3. What is a global marketing mix?..... 411
- 4. What are the benefits and risks for a business operating globally? 415

▲ These are also Key Study Questions ▲

Case Study: Unilever

Unilever is one of the world's largest **transnational corporations** (TNCs). It owns and controls over 500 **subsidiary companies** worldwide, employs tens of thousands of staff and sells thousands of different product lines, such as detergents, dairy products, drinks, ice cream and hair care products. Among its well-known **global brands** are:

- Lynx deodorants
- Bird's Eye frozen foods
- Domestos cleaners
- Comfort fabric conditioner
- Knorr soups
- Hellman's
- Vaseline
- Timotei shampoo
- Signal toothpaste
- John West tinned foods
- Sunsilk
- Dove soap



Unilever controls most of the **global market** for washing powders and detergent products. Many brands which look like they are competing against each other, such as Persil and Surf washing powders and Blue Band, Flora and Stork margarine – are actually all owned by Unilever.

Every year the company spends millions of euro on **advertising** these different brands of practically identical products. This advertising is designed to capture different types of buyers such as parents, male shoppers or the health conscious. With annual global sales of billions of euro, this single company sells more goods than every single Irish business combined.

Unilever's annual budget is also larger than that of many national governments, including Ireland's. In its pursuit of growth, the company purchased Ben & Jerry's ice cream company in a deal worth €326m, adding the ice cream to its massive product range.

Transnational corporations produce and market goods in more than one country.

The role of TNCs in the Irish economy is covered in detail in Chapter 18: Industries and Sectors in the Economy

A global business is the most internationally focused type of transnational corporation.

OL

OL Short Q1,2

HL

HL Short Q1

Global companies now dominate international trade and most global economic activity.

1. What are transnational corporations?

Transnational corporations (TNCs) are firms that produce and market goods in more than one country, such as Unilever, Microsoft, McDonald's, Ford and Toyota. Also known as **multinationals**, these businesses have a **global perspective**, which means they see the world as one giant market. TNCs do not have strong ties to any particular country. Instead, they carry out research, raise finance, source raw materials and manufacture wherever they can maximise their profits. Most transnationals have their headquarters in the USA, Europe or Japan from where they are firmly controlled. However TNCs are also emerging in countries like South Korea and Taiwan. Some Irish companies, such as the Kerry Group and Greencore are also expanding to become transnational businesses but are still small by international standards.



With the globalisation of the international economy, many TNCs are now behaving like global companies. A **global company** treats the world as one single, giant production location and marketplace. Specific characteristics of global companies include:

- **Global market:** A global company sees the world as a single marketplace, regardless of geographic and cultural differences.
- **Standardised products:** Global businesses sell the same standardised product in broadly the same way throughout the world with only minor variations to accommodate unavoidable local differences such as language or left/right hand drive.
- **Economies of scale:** By mass producing huge quantities of goods wherever it is cheapest, huge economies of scale can be achieved. This reduces production costs per unit to a very low level.
- **Global branding:** Global businesses invest heavily in developing distinctive, globally recognisable brands. To build up and reinforce global branding, all the elements of the marketing mix are similar throughout the world.

2. What are the reasons for the development of global companies?

Since the end of the Second World War, the size and number of global companies has grown rapidly. Reasons for the growth of global companies include:

- **Own market saturation:** Firms are forced to expand internationally when their home markets become saturated and are unable to provide any further increases in sales or profits.
- **Spread risk:** Selling globally reduces the risk associated with being too dependent on any one country. This was the main motivation for Unilever to expand internationally.
- **Economies of scale:** Firms are attracted to the economies of scale that can be achieved by selling to very large markets.
- **Deregulation and opening up of global markets** as a result of free trade agreements (e.g. European Union, World Trade Organisation).

- **Faster transport and telecommunications links** have made it far easier for businesses to communicate with subsidiaries, customers, and suppliers around the world using information and communication technology (ICT) such as email, Internet, electronic data interchange (EDI) and video conferencing.
- **E-business:** Firms can use the Internet to sell goods to a global market.



OL Short Q3
OL Long Q1



HL Short Q2
HL Long Q1

3. What is a global marketing mix?

Case Study: Ford's global marketing mix



Ford was one of the first **global companies**. The company's best-selling Fiesta, Focus and Mondeo car models were designed by teams of engineers and designers spread across the USA, Europe and Australia, all working together and communicating using **information and communication technologies (ICT)**. Ford deliberately tries to develop **standardised products** that will be basically the same in all parts of the world with only small variations. A **global marketing mix** is put together that will help to maximise global sales. For example, its **global marketing promotions** have included paying to have their cars featured in James Bond movies because such films are popular with a global audience. By adopting a global approach to marketing, Ford is able to keep production and marketing costs down and achieve huge **economies of scale**. This helps to make the firm more competitive against other car producers.

Global marketing means marketing a product globally with broadly the same marketing mix, as though the world were a single marketplace. Global companies, such as Ford, Pepsi and Microsoft, brand their products with a common global image and global marketing mix. Having a global marketing mix provides two strong advantages to a company:

- **Cost savings:** Product design and advertising can be used globally with only minor adjustments for different countries.
- **Recognition:** Global marketing builds global brand names. This level of recognition builds strong consumer loyalty to a brand.

Some transnationals use a standardised global marketing mix, while others use an adapted global marketing mix.

- A **standardised global marketing mix** means using the same basic mix in different countries. This approach is used by Unilever, Coca-Cola and Microsoft. However, to ensure commercial success, global companies sometimes have to take account of local market conditions and make some adjustments to their marketing strategy for each country.

▶ **Example:** When first entering the Japanese market, Apple took a very standardised approach and did not even bother to translate its computer manuals into Japanese. As a result, its computers sold poorly compared to other global competitors who used an adapted marketing mix.

- An **adapted global marketing mix** means adjusting the mix to take account of cultural, geographic, economic and other differences in various countries.

Global marketing means having

- Global product
- Global pricing
- Global distribution/place
- Global promotion



The Mondeo is one of Ford's most well-known cars.

Product marketing is covered in detail in Chapter 15: Marketing

▶ **Example:** Ford has to adapt its products by offering left/right hand drive vehicles in different countries.

Global product

Typically a global marketing mix will offer a standardised global product to all customers regardless of the country they are in. A **global product** is a product that is the same all over the world. This makes it easier for consumers to recognise and trust the brand when they travel abroad. **Production sharing** means that part of a product is made in one country, then shipped to another for further assembly, with the finished product sold in yet another country.

- ▶ **Product design** may need to be slightly adapted for some countries due to differences in culture or climate.

▶ **Example:** Ford cars sold in the Middle East all have air conditioning as standard. Wherever you go in the world, a Big Mac will taste exactly the same but McDonald's adjusts its global marketing mix for different cultures by, for example, serving beer in Germany, wine in France and McSpaghetti in the Philippines.

- ▶ **Brand names** may also need to be adapted to avoid confusion.

▶ **Example:** Kellogg's Bran Buds cereal means 'burnt farmer' in Swedish and Esso means 'breakdown' in Japanese, so these names had to be changed for those countries.

Global price

Despite having a standardised product design, the prices charged may vary from country to country due to factors such as:

- ▶ Different **standards of living** in different countries.
- ▶ Different distances and **transport costs** involved in getting to the local market.
- ▶ Different rates of **import** and **sales taxes** in different countries.
- ▶ Different **levels of competition** and prices charged by local competitors.
- ▶ Different **adjustments** needed to ensure products comply with local laws or culture.

Pricing is covered in detail Chapter 15: Marketing

Global distribution/place

A global channel of distribution tends to be longer and more complex given the many different countries involved. The channels of distribution available to global businesses include:

- ▶ **Export directly to customers** from the factory. Example: Dell computers are manufactured in Poland but sold online to customers all over the world.
- ▶ **Use distribution agents:** An **agent** is an independent person or firm who will sell the goods in the target market in return for a commission on every sale.

▶ **Example:** Ford uses local car dealers in different countries as agents to distribute their cars globally. Many global businesses will use local wholesalers or retailers.

- ▶ **Licensing:** A **foreign licensing arrangement** is a deal that gives permission to a local firm to manufacture or distribute a global firm's goods or services, or to use their global brand name. In return the global business receives a commission on sales.

▶ **Example:** Global cola brand Pepsi gave a licence to Britvic to produce and sell Pepsi in Ireland. While this is a low-cost method, it involves some loss of control over the product.

Channels of distribution are covered in detail in Chapter 15: Marketing

- **Joint venture** with a local business that better understands the local market. In a **joint venture**, *resources and capital are invested by both companies and profits are shared*. Many countries, such as China, will only allow foreign firms to invest if it is done as part of a joint venture with one of their own indigenous firms. This approach suits many businesses as risks are shared.

▶ **Example:** Irish food company Glanbia established a joint venture with a Hungarian partner to set up a cheese-making factory in Hungary.



- **Set up a foreign subsidiary** in the target country to manage the distribution of the goods. If the market is big enough, some global companies set up a manufacturing plant in the country concerned.

▶ **Example:** Unilever set up subsidiaries all over the world to produce and distribute their products.

- **Use an export trading house** to handle the distribution in specific countries. An **export trading house** is a company that buys goods in one country and then, like an international merchant, resells the goods at a profit in another country.

Global promotion

Instead of designing different campaigns for each country, one standardised global promotion campaign can be implemented. This can then be recycled from one country to another at very little extra cost.

- **Global advertising.** Posters and websites can simply be translated into local languages, and radio and television advertisements can be dubbed.

▶ **Example:** Coca-Cola uses very similar advertisements in many different countries.

- **Global public relations** can use a firm's good reputation in one part of the world to improve its image in others.

▶ **Example:** Global companies particularly like to sponsor global events such as the Olympics or the World Cup. Although these events can cost hundreds of millions of euro to sponsor, they are still regarded as value for money because a global audience of billions will be watching.



- **Internet:** The Internet is a low-cost and highly effective media for firms to advertise and sell their goods to a global market.

▶ **Example:** A company website can have different language pages for different countries. Potential customers anywhere in the world can browse through online catalogues and e-mail **orders** to the exporter's computer from anywhere around the globe at very low cost.

- A **trade fair** is a business exhibition where suppliers in a particular industry (e.g. food industry) display their products to potential customers, such as supermarkets, wholesalers, etc. Trade fairs are very useful promotional tools as many customers are gathered together in one location.

▶ **Example:** Enterprise Ireland often provides grants towards the cost of Irish firms attending trade fairs and selling internationally.

Marketing promotions are covered in detail in Chapter 15: Marketing

Duh! Global promotional blunders

Effective global marketing requires being sensitive to local language and cultural differences. Sometimes firms that try to go global ignore this advice and end up making embarrassing and costly mistakes:

'Come alive with Pepsi!' was translated in China into advertising that proclaimed **'Pepsi brings your ancestors back from the dead!'**

In China, fast-food chain KFC mistranslated their slogan 'Finger licking good' into posters that said **'Eat your fingers off'**.

A beer company with the slogan 'Turn it loose!' mistranslated their advertising into Spanish as **'Get diarrhoea!'**

Nissan launched a car called 'Moco' but did not realise this means **'snot'** in Spanish.

Case Study: Kerry goes global



From very modest beginnings in the south west of Ireland, the Kerry Group Plc has become a **transnational business** with annual sales of billions of euro. Over time, the firm changed its legal structure from being a private limited company, to a **co-operative** and then, to raise finance for global expansion, into a **public limited company**. Today the firm is a global business with factories and offices on five continents, generating over 80% of its sales from outside of Ireland.

The Kerry Group's first international project was a dairy plant in the USA. The firm then steadily expanded through a combination of organic growth and **acquisitions**. It is now a major global supplier of food ingredients, selling directly to large fast-food restaurant chains and food and drinks companies such as Pepsi. It is following a highly successful expansion strategy that has allowed it to become the world's largest producer of cheese and dairy ingredients for convenience foods. Another important element in the company's success is its continuous investment in R&D of new products and careful market research.

Like any business expanding into international markets, the Kerry Group has come up against many different barriers to trade, such as foreign languages and geographical distance. The company has also had to deal with many artificial **'protectionist' barriers** imposed by foreign governments. However, this has not deterred the company, which has seen its determination pay off in terms of a growing global market share.

OL

OL Short Q4, 5
OL Long Q3, 4, 5, 6

HL

HL Short Q3, 4
HL Long Q2, 3, 4, 5, 6

Recall and Review

1. Explain the terms highlighted in bold.
2. Describe how a global marketing mix could assist Kerry Group when launching a new brand of yoghurt.

4. What are the benefits and risks for a business operating globally?

For firms like Unilever and Kerry Group, there are both benefits and risks of becoming a global company:

Benefits

- **Access to a global market** beyond Ireland and the EU means bigger sales and potentially larger profits.
- Global companies can generate huge **economies of scale** by **producing** and selling the same standardised product in broadly the same way throughout the world. Cost savings can also be achieved by locating factories in low-cost countries, or by subcontracting to low-cost firms in those countries. Purchasing raw materials in massive quantities can generate **very large discounts** from suppliers.
- **Global brand recognition** means cheaper global marketing. Global firms can use the same advertising, public relations, sponsorship and other promotional campaigns and materials (with minor changes) in different countries.
- **Expansion and business survival** are more likely for firms that can compete on a global basis.

Risks

- **Customer needs may not be properly met** by standardised products and marketing mixes. Customers in different countries may prefer or need more customised products and services even if it means higher marketing costs. Some TNCs prefer to use well-established and successful local brands and products in different countries rather than risk switching to a standardised, global alternative. Example: Unilever's Lynx range of deodorants is sold under the Axe brand name in France.
- **Diseconomies of scale** may also be incurred if a business becomes too big. For instance, larger firms will have more complex organisational structures. This can slow down communications and impede management decision-making compared to smaller firms.
- **Increased risk:** If a global marketing campaign does not work, then the costs can be huge.

▶ **Example:** Pharmaceutical companies deliberately avoid using global branding for medicines to avoid the impact that negative publicity for a brand in one country might have for sales of the same brand in other countries.





Helping Irish business to go global

Enterprise Ireland is the State agency responsible for assisting Irish-owned firms to grow and expand by exporting internationally. Using its network of overseas offices, it assists Irish firms to compete in the global market by:

- Providing **market research** information.
- Assisting with **international advertising** and promotions.
- Setting up international **distribution channels**.
- Providing **translation services**.
- Providing **advice** on dealing with export regulations and documentation, methods of international payment and how to minimise foreign-exchange risks.
- Providing **grants and venture capital investment** to firms that want to export.

OL

OL Long Q2

HL

HL ABQ

HL Long Q7, 8

Key Concepts & Business Terms: After studying this chapter the student should be able to explain the following key concepts and business terms

- | | |
|--|--|
| 1. Transnational corporations (TNCs) | 8. Production sharing |
| 2. Global companies | 9. Agent |
| 3. Reasons for the development of global companies | 10. Foreign licensing arrangement |
| 4. Global marketing | 11. Joint venture |
| 5. Standardised global marketing mix | 12. Export trading house |
| 6. Adapted global marketing mix | 13. Trade fair |
| 7. Global product | 14. Enterprise Ireland |
| | 15. Benefits and risks of operating globally |



Useful Websites

www.unilever.co.uk
www.ford.com
www.kerrygroup.com

Leaving Certificate Practice Questions

OL

Ordinary Level

Ordinary Level – Section 1 – Short Questions (10 marks each)

1. Distinguish between a transnational company and a trading bloc. [LCQ]
2. Explain what is meant by a global company.
3. List **two** reasons for the development of transnational companies.
4. List the **four** Ps of global marketing.
5. List **three** examples of well-known global brands.

Ordinary Level – Section 2 – Long Questions

1. TNCs now dominate global business. Explain why they have achieved this level of dominance. (20 marks)
2. Explain the benefits to a firm of expanding to become a transnational or global company. (20 marks)
3. Outline the factors that need to be considered when putting together a global marketing mix. (20 marks)
4. Why might a global company adjust its marketing mix in different countries? (15 marks)
5. Distinguish between a standardised and an adapted global marketing mix. (20 marks)
6. Language skills are essential if Irish firms are to succeed internationally. Explain this statement. (20 marks)

HL

Higher Level

Higher Level – Section 1 – Short Questions (10 marks each)

1. List **three** characteristics of a transnational company.
2. Identify **one** reason for the growth of transnational companies.
3. What is global marketing? Name two global businesses. [LCQ]
4. Identify **one** advantage of adopting a global approach to marketing.

Higher Level – Section 2 – Applied Business Question

Case Study: Soft-Tech, MediWorld and Cottonland

Soft Tech is a transnational firm employing hundreds of highly skilled employees in an industrial estate located outside a small town on the banks of the Shannon. Since setting up in Ireland it has signed contracts with many local firms to supply goods such as computers, stationery, packaging, food and services such as cleaning, security and insurance services. Every year it also pumps millions in wages into the local economy, which further benefits many local enterprises. As a result, the town is a thriving and prosperous place.

However, a downturn in the global economy and increasing low-cost competition from Asia means that Soft Tech's head office in the USA is considering relocating the factory to India where labour costs are a fraction of the costs in Ireland.

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At the same time in a nearby town, Medi-World, a local indigenous firm producing medical equipment is looking at a more exciting future. With help from Enterprise Ireland and linkages with the local Institute of Technology, it has successfully developed a new life-saving product that it expects will be in huge demand by hospitals and doctors worldwide. The company is very excited about this development and is preparing a global marketing plan to ensure it becomes a success.



However, the news is not so good at Cottonland, an indigenous clothing company in the same town. Despite having award-winning fashion designs, this long established local firm has been struggling to survive in recent years due to low-cost competition from foreign firms. The latest sales figures are very poor and the board of directors are meeting to discuss the future of the business

1. Discuss the factors that the management of Soft Tech will consider when deciding the future of their Irish operations within a global context. *(30 marks)*
2. Analyse how a global marketing mix can assist Medi-World in successfully launching their new product. *(20 marks)*
3. Evaluate the challenges facing Irish industry within a globalised business environment. Refer to the case study in your answer. *(30 marks)*

Higher Level – Section 2 – Long Questions

1. Explain the reasons for the global spread of transnational corporations. *(25 marks)*
2. Explain, using examples, the importance of global marketing for a global business. **[LCQ]** *(20 marks)*
3. 'Marketing a product for the Irish market and marketing globally are basically the same.' Evaluate this statement using examples to illustrate your answer. *(30 marks)*
4. Explain the term 'global marketing' and its role in international business. **[LCQ]** *(25 marks)*
5. Describe how information technology can assist in the global marketing of products. *(25 marks)*
6. Explain why firms may adjust their marketing mix in different countries. *(25 marks)*
7. A business involved in global markets faces additional marketing challenges. Discuss these challenges, using examples to support your answer. **[LCQ]** *(30 marks)*
8. Evaluate the potential benefits and risks for a business of operating globally. *(30 marks)*

**'Once the game is over, the king
and the pawn go back into the
same box.'**
Italian Proverb

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