

**OCR
GCSE
(9–1)**

FOURTH EDITION

BUSINESS

**MIKE SCHOFIELD
ALAN WILLIAMS**

Boost

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Introduction

The OCR Business GCSE specification is divided into two components, each divided into sections. The two components and their sections are:

- Component 1: Business activity, marketing and people
- Component 2: Operations, finance and influences on business

The specification indicates the content of each section and identifies points to include.

Section 7, The interdependent nature of business, illustrates the links between the different sections of the specification. This section is synoptic, which means that you will need to use content from both components. The specification explains that learners need to make connections between the different elements of the subject. There is a list of bullet points which indicates the knowledge and understanding that learners should have. In the examination the question may guide you as to the sections within the two components that you need to write about.

The examination

There are two examinations. J204/01 covers the content of Component 1 and J204/02 covers that of Component 2. Both examinations contain multiple-choice questions and short-, medium- and extended-response case study questions.

There are multiple-choice questions on each paper. You must select the correct answer from four possible answers.

There are three case study questions on each paper. Each question is divided into a number of parts. The

data is based on real or fictional business contexts but there is a greater emphasis on data from real world situations. Business contexts used will be selected so that they are accessible to students who sit GCSE examinations.

Some parts of the final question on J204/02 are designed to be synoptic (requiring you to refer to content from both components of the specification), though this does not mean that you will not be credited if you take a synoptic approach to answering other questions on either paper.

Quantitative skills

The specification expects you to be able to use a range of quantitative skills and mathematical techniques and apply them to business contexts. These are outlined in Appendix C of the OCR GCSE (9–1) Business specification. They include being able to perform certain calculations:

- percentages and percentage changes
- averages
- revenue, costs and profit
- gross profit margin and net profit margin ratios
- average rate of return
- cash flow forecasts, including total costs, total revenue and net cash flow.

You will also be required to interpret quantitative data to support, inform and justify business decisions, including:

- graphs and charts
- profitability ratios
- financial data
- marketing data
- market data.

A minimum of 10% of the total GCSE marks will be for using quantitative skills.

Assessment Objectives

Assessment objectives here refers to the skills that will be tested in the examinations. The specification identifies 3 assessment objectives (AOs). The weighting of each assessment within the scheme of assessment is given in brackets:

- AO1 (35%) Demonstrate knowledge and understanding of business concepts and issues. Questions in the examination that will test this will use one of the following command words:
 - identify
 - state
 - explain.
- AO2 (35%) Apply knowledge and understanding of business concepts and issues to a variety of contexts. Questions in the examination that will test the skill of application will use one of the following command words:
 - calculate
 - complete
 - explain.
- AO3 (30%) Analyse and evaluate business information and issues to demonstrate understanding of business activity, make judgements and draw conclusions. Questions in the examination that will test the skills of analysis and/or evaluation will use one of the following command words:
 - analyse
 - discuss
 - evaluate
 - recommend.

Command words are used to signal the highest level of skill required in a question. For example, a question using the command word 'Analyse' will also assess AO1 and AO2.

How to use this book

The textbook has been designed to match the layout of the specification. The final section of the textbook explains and illustrates the interdependent nature of business. It also illustrates the idea of synopticity.

The text of the book, including diagrams and tables, details the knowledge and understanding that learners should have. At the end of each unit there are also lists of 'key ideas' and 'terms to learn' which emphasise the key knowledge.

Each unit contains a number of case studies. The purpose of the case studies is to illustrate the relevance of the content of the business specification to the real world of business. The case studies are very important for illustrating the application of knowledge and understanding.

Case studies also provide an opportunity to demonstrate the skills of evaluation. In addition, each unit in the book contains 'evaluation points' to illustrate the use of this skill in the context of the unit content.

Each unit contains a number of activities. The activities represent opportunities for developing and for reinforcing learning – both knowledge and the skills to be tested.

Each unit contains practice questions. There are multiple-choice questions and case study questions.

The case study questions use stimulus materials based on actual real world contexts or contexts which reflect the real world. The latter are used where sensitive data, often relating to finance, is not publicly available.

The questions use the command words associated with each assessment objective and indicated in the specification. Advice is given on how to answer the data response questions in order to maximise marks.

A further word about case studies

The case studies in the book were researched at the time of writing. Most were current to that time, some are from earlier years. Inevitably, they will not be current when the books are being used in schools. To an extent, this does not matter as long as they illustrate learning points. However, it can be useful sometimes to follow a story through. Using Google to explore a case study in more detail can enhance your understanding.

A note on the useful words

The specification includes some Business vocabulary that you will need to understand. If a word is used in the specification it can be used in an exam question, so it is very important you understand all of the words in the specification. Words that appear in the specification are highlighted in red in the text and defined in the Useful Words box at the end of each unit. There are other specialist Business terms that it is useful for you to understand, but are not in specification. These can't be asked about directly in an exam paper, but could be useful for you to use in an answer. These terms are also defined in the Useful Words box and are bold and black in the text.

Grades

Candidates will be awarded grades from 9–1. Grade 9 will be awarded to the very highest performing students. Grade 5 represents the new strong pass grade and grade 4 represents to the new standard pass grade.

Changes from the previous edition

In response to requests from teachers, two elements of the book have been changed significantly from the previous edition:

How to answer case study questions

In each unit, this section gives advice on how to answer the case study question(s) in the Practice Questions. There is an indication of how the different skills tested will be rewarded. There is then advice about how to answer the question to score a mark(s) for each skill. For many units, it should be sufficient to recall what you have learned from studying the unit. Alternatively, you may need to refresh your learning by going over the relevant sections in the unit. For more difficult questions, the advice goes further and gives significant clues about the kind of answer required.

Answer Guide

Answers to activities and Practice Questions are published in a companion Answer Guide (ISBN 9781398364097) which will be available for download in June 2022.

The main change is to the case study questions. The mark allocation for each skill tested by each question is shown. This is followed by outlines of the answers that may be given. While the style of presentation is not dissimilar to the mark schemes produced by OCR, the answer guides are not mark schemes. They illustrate the type of response that will score marks. They are not comprehensive and other answers will also be worthy of reward. The key here is to stress the approach that you must adopt to gain the mark. It is hoped that the distinction between the different skills tested – knowledge, understanding, application, analysis and evaluation – is clearly illustrated in the Answer Guide. It is also hoped that by repeated practise, in the examination you will know exactly how you must answer the questions when you come to sit the examination.

The other changes to the book include:

- more and updated case studies within units

- more pictures than previously and more cartoons, which feedback suggests students enjoy
- amendments to the text to reflect changes to the business environment since the publication of the previous edition. These include updates about the seismic changes in retailing that have occurred, the impact of the coronavirus pandemic 2020–21 and the effects of the UK leaving the European Union. Where data had been provided this has also been updated
- there are a few changes to the activities
- additional multiple-choice questions have been added. Usually, there will be four in the Practice Questions at the end of each unit. Some of these extra questions require the application of mathematical skills
- there are some additional case study questions. For example, there are more on the Finance and the Interdependence of Business parts of the specification.

2 Marketing

UNIT 2.1 The role of marketing

Learning outcomes

By studying this unit, you will be able to:

- identify and explain the roles of **marketing** in business activity
- explain how different businesses might have a different approach to marketing
- analyse and evaluate the purpose and importance of marketing in business activity.

Introductory case study: Kellogg's



Kellogg's is an example of a company that, throughout its long history, has moved with the times in the way it markets itself. The company's marketing takes many different forms; it may be how they advertise, the different products they introduce or how the image of the business is portrayed. All this is aimed at giving the customer a positive feel about Kellogg's which they hope will lead to customers buying their products.

Kellogg's founder, William Keith Kellogg, was experimenting and left wheat exposed to air overnight. This was then flattened by a roller to

create a flaked cereal. Four years later after more experiments, the breakfast cereal Corn Flakes was born in the USA. Kellogg's arrived in the UK in 1922, with two products, Corn Flakes and All Bran. The company was keen to stress nutrition in their products and employed the first industry dietician in 1923.

It was important to keep the company name in the public eye. So, in 1969, Kellogg's provided breakfast for the three American astronauts on their Apollo 11 trip to the Moon. In the UK, a young Jonathan Ross starred in a Rice Krispies TV advertisement in 1970.

In 1998, Kellogg's started its support of school breakfast clubs. Since then, it has provided 70 million school breakfasts. Still keen to encourage good nutrition, in 2010, Kellogg's reduced the salt in Corn Flakes and Rice Krispies by 30 per cent. A year later, vitamin D was added to their children's cereals to help combat the rise of rickets. Further changes, such as reducing sugar content were made to its products to reflect how society viewed healthy, nutritious food.

To keep pace with changing times, Kellogg's changed the iconic design of its cereal packets in 2019.

Adapted from www.kelloggs.co.uk

The role of marketing within business

Marketing is concerned with finding the needs of customers and demonstrating how a business fulfils those needs. It is vital to the success of any business. Some large businesses will spend millions of pounds on marketing; other more local businesses may spend a few pounds on a local newspaper advertisement. Both of these examples have the same objective: they want to increase sales. This is done by:

- 1 identifying and understanding customers – a business must be clear on who it is trying to sell its products or services to. Is it trying to sell to all ages, both male and female, or just females between 20 and 40 years old? This will influence how the business is marketed. A business needs to understand its customers. Their views will be collected using **market research** (see Unit 2.2), and then analysed to make sure that the business really is providing what the customer wants. There have been many examples in the past where a business *thinks* it understands the needs of the customer. Without checking with the customer, mistakes can be made and these mistakes can prove very costly for businesses.
- 2 informing customers – customers need to be informed by the business of the products and services they are selling. There is no real point in researching what customers want, making that product, and then not informing customers through advertising that it is available. Informing customers would normally be achieved through advertising (see Unit 2.4). There are a number of different ways a business might advertise a product or service, including television, radio and social media. There are costs to be considered here. Kellogg's is a very large company with huge resources which can be used to inform customers of a change to their products, or perhaps a new lower price offer. This advertising will be aimed at customers countrywide. In contrast, a new local pizza delivery business might simply put leaflets

through the letterboxes of homes in the nearby estate to tell possible customers of the service they offer. Each business has a different market to inform, one being throughout the country and one being very local.

- 3 increasing sales – as stated above, marketing aims to increase sales. This could be achieved by:
 - a) advertising the product or service more in order to raise awareness of what is on offer
 - b) introducing a new model that will appeal to more customers, for example, higher definition televisions
 - c) increasing the range of products or services available. Cars, such as the Ford Fiesta, come in many different models
 - d) reducing the price – sales may increase, but will profits go up? Selling a new car at £1,000 may well increase sales but no profit will be made. A business must make sure that the price it charges for a product or service will be low enough to attract customers but high enough for the business to make a profit.
 - e) selling the product in different places – should a business sell a product to a single chain of shops or a range of different shops? Should it sell direct to customers?
 - f) selling by different methods – selling online, or offering digital distribution (see Unit 2.4) will help increase the sales of products such as books and music.

Evaluation point

You will need to be able to evaluate whether or not a business should undertake marketing activities, using the role of marketing as a basis for your answer. Remember that not all businesses will spend money, time and effort on marketing themselves. It will often depend on the size and circumstances of the business. Money spent on marketing does not always bring about the required increase in sales.

Activity 1 – True or false activity

Put a tick in the correct column to show whether the statements are true or false.

Statement – the role of marketing is to:	True	False
increase the production of products		
give workers a better place to work		
inform customers of new products		
make higher quality products		
increase the sales of products and services		
undertake market research in order to understand the needs of customers.		

Table 2.1 The role of marketing.

Activity 2 – Research and explanation activity

Identify a product that you own. It may be an item of clothing, technology or any other item. Then research and answer the following questions:

- How well is the product aimed at your needs? How do you think the business that made the product identified just what you wanted? If it does not quite meet your needs, could the business do more to meet them?
- How were you informed about the product – was it an advertisement or another way? Do you think the business used the best way to keep you informed? Are there other methods the business could use?
- Overall do you think that the product you have chosen is a good product for the business, in that sales are high and profit will be made? How would you explain the success of the product?

- d) Make a PowerPoint report of your findings.



There are a number of roles within marketing.

Key facts

Marketing has a number of roles within a business.
Marketing plays a key part in business success.
Small businesses may not spend any money on marketing activity.
Large businesses may spend millions of pounds each year on marketing.

Useful words

Marketing is finding the needs of consumers and demonstrating how a business fulfils those needs in a way that increases sales.

Market research is the collection of data on consumer habits to help decision-making in marketing. (See Unit 2.2.)

Practice questions

Multiple-choice questions

- 1 The principal role of marketing is to:
 - a) increase sales
 - b) increase profit
 - c) increase the number of products made
 - d) increase the skills of the workers.
- 2 The way a business informs customers about a new product or service:
 - a) is the same operation for all businesses
 - b) can vary depending on the size of the business
 - c) is only done at a local level
 - d) is only done at a national level.
- 3 A business can understand the needs of its customers by:
 - a) conducting market research
 - b) making the best possible product
 - c) setting a lower price than competitors
 - d) having special offers such as buy one get one free.
- 4 Which of the following would **not** usually lead to an increase in sales?
 - a) An increase in advertising.
 - b) A reduction in price.
 - c) A reduction in the range of products.
 - d) Selling products in different places.

Case study 7

Most products and services need to be marketed in some way. The marketing might be on a mass scale, aimed at most consumers in a country. Other marketing might be on a smaller scale, perhaps one business marketing its products to another business.

Introduced in 1950, Fairy Liquid is a product which has a wide target market, though concentrating on households. Before 1950, people used powders to wash their dishes. Since its introduction, Fairy has become a well-known name in the UK and abroad,

expanding its range of products into different scents and also dishwasher products.

All this success has been achieved through marketing. Fairy introduced the slogan 'Now hands that do dishes can feel soft as your face with mild green Fairy Liquid' which became a well-known catchphrase and helped customers to remember the product's name. One way the target market was reached in the 1950s was through adverts on the newly created TV channel, ITV.

Because of intense competition, Fairy has continued to use a range of advertising, using newspapers, TV and other media to make sure that Fairy Liquid maintains its status as one of the most recognised product names in the UK.

- a) Explain what is meant by target market. (2 marks)
- b) Analyse **one** benefit to Fairy Liquid using TV as a means of marketing. (3 marks)
- c) Explain **one** reason why Fairy Liquid continues to market itself when it is a well-known product. (2 marks)

How to answer case study 7

- a) Assessment objective checklist: Knowledge (1 mark), Understanding (1 mark).
For the knowledge mark, you should try to define target market.
For the understanding mark, use an example, either from the case study or any other you know.
- b) Assessment objective checklist: Understanding (1 mark), Application (1 mark), Analysis (1 mark). *Note: you cannot score application and analysis marks if you have not scored the understanding mark.*
For the understanding mark, give an example of a benefit that comes with using TV as a means of marketing.

For the application mark, you need to relate your answer to the case study. Here you need to look at the benefit to Fairy Liquid.
For the analysis mark, you need to make clear the *effect/impact* the benefit has on the business operations at Fairy Liquid.

- c)** Assessment objective checklist:
Understanding (1 mark), Application (1 mark).

Note: you cannot score the application mark if you have not scored the understanding mark.
For the understanding mark, you need to give an example of why any business might want to maintain its marketing effort.
For the application mark, you need to refer to the case study. Here you need to look at why Fairy Liquid might want to keep on marketing itself.

UNIT 3.5 Motivation and retention

Learning outcomes

By studying this unit, you will be able to:

- define the terms **motivation** and 'retention'
- explain each of the financial and non-financial methods of motivation
- explain the importance of motivation and retention to businesses
- explain how businesses may use financial and non-financial methods of motivation
- perform calculations connected with financial methods of motivation
- analyse and evaluate the benefits and costs of motivation and retention
- evaluate methods of motivation.

Introductory case study: Gravity Payments – boss raised pay to \$70,000 – the benefits of motivation



Dan Price and happy colleagues from Gravity Payments

In 2015, the boss of Gravity Payments, a card payments company in Seattle in the USA, raised the minimum pay for all of his 120 workers to \$70,000 per year. For one worker, Valerie, it meant an increase from \$40,000 and that she no longer needed to have two jobs to pay all her bills. For the boss, Dan Price, the move paid off. Five years on, in 2020, the number of customers had doubled and the company's turnover had risen from \$3.8bn to \$10bn.

From [bbc.co.uk](https://www.bbc.co.uk), 28 February 2020

Motivation

Motivation is the encouragement given to workers to work well. A motivated worker will feel responsible, fulfilled and happy in their work.



A motivated worker does a better job.

The importance of employee motivation and retention

Motivation is all about improving the performance of workers. Well-motivated workers bring several key benefits to firms and these are discussed below.

- **High employee performance** – workers are efficient in what they do because they gain rewards for good quality work.
- **High retention and low turnover of workers** – workers are happy to continue working for the employer because they are rewarded and feel valued.

- **Ease of recruitment of new workers** – if a firm needs to recruit new staff, good motivation will make this easier. The firm will gain a good reputation for the way it treats its staff and this will attract applications from workers who want to work there. The firm is more likely to have a range of applicants to choose from which should help it to recruit good-quality staff.
- **Less need for the supervision of workers** – motivated staff need less supervision. They will be focused on their work, therefore improving their performance. This will save on the costs of paying people to supervise other workers.
- **Low absenteeism** – motivated staff will be absent less often. They will want to be at work to earn their rewards or because they enjoy being at work. Absenteeism costs money if firms have to pay sick pay and no products are being made by the workers.
- **Reduced waste of raw materials** – motivated staff will want to produce good quality work. This will reduce waste because fewer goods will not be up to standard.
- **Better delivery of services** – staff who deliver services will want to do this better, leading to fewer complaints and more satisfied customers who are more likely to buy again in the future.
- **Increased custom** – due to the improved quality of goods and services, custom is increased, making the business more successful.

Retention

Retention refers to workers staying with a firm for a long period of time. Firms have a high **turnover of labour** when workers leave after only a short period of time and new workers need to be recruited. Poor retention and high turnover can cause problems.

First, there is the cost of recruiting and selecting staff, which can be very expensive. Second, retained workers are familiar with the business and its customers. This helps production to be more efficient and also it helps to provide better service to customers because of the knowledge the worker has. If a new worker has to be recruited, they may need training to know the job and that can be very

expensive. Research suggests that for some workers it can cost as much as 50 per cent to 60 per cent of their annual salary to replace them. A firm that pays a worker £40,000 a year could save £20,000 to £24,000 by motivating them to stay.

Third, if there is a stable staff team in a business, it is often good for morale. It means that people are happy in their place of work and get on well with other workers. In turn, this can help performance as happy workers tend to be motivated and willing to work with colleagues to produce good work. Finally, low turnover is often an indication to potential recruits that the business is a good place to work and this will make it easier, and probably cheaper, for the business to recruit new workers when they are needed.

Evaluation point

Are the costs of motivation worth paying?

There may be costs for motivation. For financial methods of motivation, the firm must use money to reward its workers rather than adding this to profits for the benefit of the owners. Some managers will need paying to manage the motivation system, deciding which workers should be given rewards, how much each one should be given and then arranging for this to be given. The managers who decide on rewards will need to do this fairly as workers may be de-motivated if they do not receive rewards while others do, unless it is clear and seen to be fair why the rewards were given.

Whether or not a motivation system is worthwhile will depend on how effective it is in improving the performance of workers, increasing retention, reducing supervision, absenteeism, waste and increasing sales compared to how much it costs. It is possible that the benefits in terms of higher **productivity** and reduced production costs may pay for the costs of the methods of motivation used. Good motivation should improve the competitiveness and profitability of the business.

Activity 1 – True or false activity

Place a tick next to each of the statements to indicate whether they are true or false.

Statement	True	False
If a worker improves productivity, they will produce more than they used to in the same amount of time.		
If workers in a car factory improve their productivity, the cost of producing each car will fall.		
Motivated workers will always want to leave the business to work elsewhere.		
Training costs will usually fall if staff turnover is high.		
Increased motivation reduces costs because workers are less likely to be absent.		
Motivated workers need a lot of supervision to make sure they work hard.		
Increased motivation saves on training costs because workers are likely to remain working for the firm for longer and fewer new recruits are needed.		
Motivated workers may help to reduce business costs because they will take pride in working accurately, so reducing waste.		
Motivation systems can be expensive as managers need to be paid to run them.		
Financial methods of motivation increase total business costs.		
Motivating workers always reduces the average costs of producing goods and services.		

Table 3.19 True or false motivation.

Methods of motivation

All workers need enough money so that they can buy the basic necessities – food, clothing and shelter – for themselves and for their families. However, many other factors will also encourage workers. Workers will be more motivated if they are safe at work, if they feel they are part of a team, if they get status that raises their self-esteem or if they feel that their talents are being challenged and used fully. The case study of motivation at Google and Facebook illustrates some factors which can encourage or discourage workers.

The following quotes are from people who have worked at the sports retailer, Sports Direct. They are interesting because they are from two people working for the same organisation but who have different views about the business. The first is from a cleaner, the second from a salesperson working in one of the Sports Direct shops.

‘I was happy to be a part of a small team of cleaners making sure the shop was fit for custom before the doors opened every morning. The management were down to earth and regularly discussed ways to improve in certain areas as opposed to ordering me about.’

Case study: motivation at Google



Google HQ in California.

At Google headquarters, workers have a positive workplace environment and are provided with free meals cooked by in-house chefs, and free laundry and childcare services. They also let current employees be involved in the recruitment of new employees.

Research by Warwick University found that employee support like this paid off. The report concluded that higher happiness levels at Google resulted in a 12 per cent increase in productivity.

From Forbes.com (2018)

'Worst place to work. First week was okay but after that it just did not make you want to go. They put so much pressure on the staff and expect you to do more than what you are supposed to. Even the pay I had problems with as someone did not put my bank information right and the manager could not care less to get that fixed. Not the greatest experience.'

From: www.indeed.co.uk



Different people may want different things from their jobs.

Evaluation point

The quotes above show that people who work in the same business can have very different experiences. Different workers need motivating in different ways. The appropriate method of motivation will depend on what kind of work they do. Whether the method of motivation is effective or not may depend on how well it is implemented by the managers and on the personalities of the workers.

Methods of motivation can be divided into two categories:

- financial methods of motivation
- non-financial methods of motivation.

Financial methods of motivation

Figure 3.8 shows four methods of motivating workers that involve paying money to them.

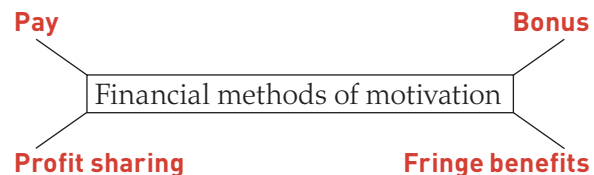


Figure 3.8 Financial methods of motivation.

The following four case studies are examples of the financial methods of motivating workers.

Case study: motivation at Aldi, the highest paying supermarket in the UK



Aldi has a reputation for paying workers well.

Aldi has consistently been the UK supermarket that pays its workers higher rates than any other. In 2021, it raised the minimum pay for workers outside London from £9.40 to £9.55 per hour and in London from £10.90 to £11.07 per hour. These rates exceed the voluntary Living Wage. Aldi also pays workers for the time that they are on their breaks, unlike some supermarkets.

Aldi's CEO, Giles Hurley, said, 'The dedication and commitment our store colleagues deliver every day when serving our customers underpins our success. We have the most efficient and productive workforce, and this is why they earn the highest rates of pay in the grocery sector.' Hurley also said, 'We want to recruit the best people in retail, invest in their training and provide them with the opportunity to develop their careers with Aldi as our business grows.' In 2021, referring to difficulties caused by the coronavirus pandemic 2020–21, he said about staff, 'Their outstanding efforts have ensured our customers continue to have access to fresh, affordable food, every single day,' he added. 'It has never been more important to ensure our colleagues are rewarded fully for their immense contribution during a challenging period for everyone.'

From the Guardian, 21 January 2020 and The Grocer 2021, 19 January 2021.

Case study: profit sharing at Delta Airlines



Delta Airlines shares profits with workers.

In 2021, Delta Airlines paid out over \$1 billion of its profits to its employees. This represented 16.7 per cent of the company's profits. The Delta Chief Executive, Ed Bastian, said 'Delta would be nothing without our 90,000 people worldwide. They deserve all the credit for our success, and we are proud to recognise their extraordinary work with a \$1.6 billion payout – marking the sixth year in a row that Delta's profit sharing has exceeded \$1 billion.'

From Forbes.com, 16 February 2020

Case study: motivation at McDonald's



McDonald's gives bonuses to workers.

Every month, McDonald's gives a bonus to employees who work in the top ten per cent of its restaurants. McDonald's has 400 restaurants the UK. The top ten per cent are decided on the basis of reports from mystery shoppers who visit the shops pretending to be ordinary customers but who are checking that staff are working as they should. Store managers also get a bonus that is linked to mystery shopper scores, sales growth and profitability.

Case study: Travis Perkins' fringe benefits



Travis Perkins gives good 'perks'.

Travis Perkins is a timber and building merchant. The company offers a wide range of fringe benefits to its workers.

A generous contribution to the employee's pension is made, with the amount depending on the seniority and length of service. Workers can also receive private medical insurance and discounted gym membership. Share 'buy-as-you-earn' schemes are open to all employees. There is also a company car scheme and a subsidised bike-buying scheme. Travis Perkins offers childcare vouchers and an enhanced maternity scheme.

The table below summarises the main methods of financial motivation.

Pay	How it might work	Pay motivates workers because it enables them to buy the goods and services that improve their standard of living. Pay is also important in retaining workers. If competitor firms offer better pay for the same work, workers will leave. Competitive pay rates also help to attract new employees. Workers will feel valued if they are paid well and will be motivated to do their job well and give a good level of service – just like the workers at Ikea.
	Salary	Two basic methods of pay are salary and wages. Salary is when a worker receives a set amount for a year's work, usually paid out in 12 equal monthly payments. Salaried workers are often motivated by the possibility of promotion and the higher salaries attached to more senior jobs.
	Wage	A wage is usually a weekly system of pay. One way of deciding how much a worker's wage will be is a time-rate system of pay. This is when workers receive a certain amount for each hour worked. The longer the person works, the more they will receive. To calculate the weekly pay of a shop assistant who works a 40-hour week and is paid on an hourly rate of £9 the following sum would be used:
	Example calculation	Number of hours worked times hourly rate = total pay for the week. This would be: $40 \times £9 = £360$

	Problems	<p>Pay is a business cost. High costs may reduce profits.</p> <p>A disadvantage of time-rate pay is that it does not depend on how much or the quality of work done in the time.</p> <p>Without some kind of additional reward, wages and salaries may not motivate workers very well.</p>
Profit-sharing	How it might work	The American Airlines scheme is typical of how profit-sharing schemes work. In a profit-sharing scheme, a business usually sets aside a proportion of profits which is then shared out in some way among its workers. The bigger the profit that the company makes, the greater will be the sum to be shared out. This will encourage their workers to work harder.
	Example calculation	<p>An example calculation for a profit-share scheme and how it might be shared out is shown below:</p> <p>Total profit of the business: £5 million</p> <p>Percentage to be shared out: 10%</p> <p>Amount to be shared out:</p> $£5 \text{ million} \div 100 \times 10 = £500,000$ <p>Number of workers: 160</p> <p>Amount of profit for each:</p> $£500,000 \div 160 = £3,125$ <p>per worker.</p>
	Problems	<p>Shareholders may feel that money is being taken away from the dividends they might earn on their shares but if the profit-sharing scheme works, the overall profits may increase so much that dividends rise even once a share of the profits has been given to the workers. (See Unit 1.3 Business ownership.)</p> <p>Pay is a cost. High costs may reduce profits.</p>
Bonus	How it might work	Bonuses are payments that workers receive on top of their pay. They are a kind of performance-related pay. A bonus payment will be triggered by some measurable level of performance. This might be a salesperson or team reaching a target level of sales, production line workers reaching or exceeding a target level of output or the business achieving a target level of profits. As for some of the employees at McDonald's, awarding a bonus might depend on the quality of service provided.
	Example calculation	<p>An example calculation for a bonus is:</p> <p>Total bonus available: £100,000 for a team of 40 workers who reach a target level of output</p> <p>Bonus per worker:</p> $£100,000 \div 40 = £2,500$
	Problem	Targets need to be realistic or workers will not be motivated to achieve them.
Fringe benefits	How they might work	These are benefits other than money that a worker may receive on top of their pay. A major benefit is when the firm contributes money into a pension scheme for its workers. Other benefits include: a car allowance, childcare vouchers, private medical insurance, share-buying schemes and subsidised canteen meals.
	Problem	Fringe benefits are a cost to the business that may reduce profits.

Table 3.20 The main methods of financial motivation.

Evaluation point

Using financial methods to motivate workers will cost the business money. However, this cost could be covered by lower average costs of production

and increased revenues. The type of financial method to be used would depend on the type of worker to be motivated.

Activity 2 – Calculation activity

For each of the following:

- a) state the method or methods of pay being used to reward each of the following workers
- b) state the amount of pay that each worker would receive in the given time period.
- Angus Deade receives £9 per hour and works a 35-hour week. In May, he worked four weeks. He also worked 12 hours of overtime at time and a half.
- Fabrice N'gono is paid a basic salary of £800 per month to pack spices. The team he works with are entitled to share a bonus of £960 each month if they achieve the target number of packets.

There are eight workers in the team including Fabrice. The team met its target in the month.

- Alastair Munro is the managing director of a firm. He receives £80,000 per year. He is also paid two per cent of any profit that the company makes. In the last year, the company made £2 million in profit. He has a company car and is given free health insurance.
- Wasim Ikram earns a basic salary of £30,000 per year. In October, he received a bonus of 15 per cent of his salary when the output of the production department that he manages was 25 per cent greater than the target level.

Activity 3 – Explanation activity

For each of the following financial methods of motivation:

- a) explain briefly how it works to motivate workers
- b) explain one problem or disadvantage to a business of using that method.

Methods of motivation:

- pay
- bonus
- profit-sharing
- fringe benefits.

Non-financial methods of motivation.

These methods of motivation do not involve any payments of money or fringe benefits. Figure 3.9 shows three non-financial methods of motivation.



Figure 3.9 Non-financial methods of motivation.

Case study: awards at Asda and McDonald's

When workers at Asda reach a monthly sales target, the worker is given a lapel badge. Workers at McDonald's restaurants are given stars

when they do well, in order to recognise their competence. Workers are often proud to display the number of stars they have received.

Case study: the working environment at Alphabet

Alphabet provides maintenance services for fleets of vehicles owned by transport companies. One way in which Alphabet motivates its workers is by involving them in a range of activities. One of these is the company choir. The choir was a way of bringing together workers. Another is

its APE (alphabet proactive experts) initiative. Workers can write suggestions on a blackboard about how to make the company a better place to work. Alphabet managers always respond to these suggestions, even when they are not adopted.

Case study: praise



Praise can be given in many ways.

Followers of football will notice how often, when a player comes off the pitch after having been substituted or at the end of a match, the manager will shake hands, hug or give the player a pat on the back. This demonstrates that praise is important, even for these often very highly paid workers. It makes them feel valued and appreciated.

Recognition and praise is also considered important by many businesses and workers. The website business2community.com reports:

'Overall, employees just want to be valued for their work, time, and effort.

In one client employee satisfaction survey, 55 per cent of the respondents said that praise and attention from their supervisor would make them feel cared for and valued in the workplace.

While the survey also indicated that money, benefits, and events such as company lunches ranked high for motivation, recognition from a supervisor or manager ranked the highest. Other studies on non-monetary employee recognition have revealed similar results, showing that recognition is vital to the well-being of any work environment.'

From: business2community.com

The table below summarises the main methods of non-financial motivation.

Praise	How it might work	The importance of managers giving praise to workers, formally as in the Cartwright Group or informally, should not be underestimated. A 'quiet word' of praise can make workers feel good because they know that their effort has been noticed and appreciated. Publicly praising a worker can raise the self-esteem of that worker as well as presenting an example to others of what the firm expects.
Award schemes	How they might work	These may be closely linked to praise. An award is a tangible way of recognising someone's effort. It might take the form of a 'worker of the month' notice in the staff newspaper or noticeboard or the presentation of a certificate at an award ceremony. Awards can take many forms. It could be a voucher for goods from the shop, a choice of Red Letter Days, a free holiday, a car or a wide range of other things. Even awards as simple as the lapel badges given at Asda and the stars at McDonald's can have a very positive effect on worker morale and productivity.
Working environment	How it might work	The safer a place of work is, and the more comfortable and pleasant the surroundings are, the more staff will be motivated. The working environment is also about the atmosphere created in the place of work. Do workers get on well with each other? Are their views respected and are they made to feel responsible for their work? Is there a 'can do' confidence about the workplace? Much of this will depend on how managers treat the workers, how they speak to them, whether they trust them or not and are willing to be flexible with them. All of this is about the culture of the business or the climate in the workplace. Sometimes businesses will do specific things to create a positive environment. For example, a firm may arrange an activity, such as a day of outdoor pursuits, to bond a group of workers as a team. Sometimes it is just about the way in which people are treated on a day-to-day basis. Alphabet has achieved a positive climate partly through the specific activity of a company choir, but also through the respect that workers are shown on a day-to-day basis.

Table 3.21 Non-financial methods of motivation.

Evaluation point

Non-financial methods of motivation may cost a business money, for example, to pay for awards and bonding activities and possibly in lost production if the worker is taken away from the job. However, they do not need to cost anything. They focus on relationships between workers – recognising and valuing workers who do good work and creating a positive attitude towards achievement.

Activity 4 – Explanation activity

For each of the following non-financial methods of motivation:

- a) explain briefly, with the aid of an example, how it motivates workers
- b) explain one problem or disadvantage to a business of using that method.

Methods of motivation:

- praise
- awards
- the working environment.

Activity 5 – Zone activity

Match the non-financial method of motivation listed below to the example given in the table. You need to use them more than once.

- a) Praise for good workers.
- b) Awards for good workers.
- c) A positive working environment.

Examples of non-financial methods of motivation	Non-financial method of motivation
Some firms have an annual event when these are given out to workers to recognise their good work.	
This might involve consulting with workers to make them feel valued.	
This might just be a word of thanks over a coffee break, but it acknowledges good work by the worker.	
These might include certificates or gifts.	
This might be created by team-bonding sessions such as a firm's day out at the races.	
This might result from painting an office and putting new furniture in it to make the workers feel that they are being treated well.	

Table 3.22 Examples of non-financial methods of motivation.

Key facts

The motivation of workers can help to reduce the costs of a business and make it more competitive.

Pay is an important reward for workers.

Basic pay can be determined by the amount of time a worker works.

Bonuses, profit-shares and fringe benefits can be added to basic pay.

Workers can be motivated by things other than pay, for example, by feeling valued and having their efforts recognised.

Praise, awards and a good working environment all help to motivate workers.

Useful words

Motivation is how workers are encouraged to work hard.

Retention of workers is when workers choose to stay in a firm rather than move elsewhere.

Turnover of labour is a measure of the number or proportion of a staff who leave a firm each year and need replacing.

Productivity is a measure of output per worker. It is one way of measuring the performance of workers.

Pay is the money earned by workers as a reward for the work they do.

Profit sharing is when workers receive some of the profits made by a business.

Bonus is an additional payment to workers for achieving a target.

Fringe benefits are additional benefits that workers receive on top of their pay. They include pensions, childcare vouchers, subsidised canteen meals.

Praise is a method of motivating a worker by complimenting their work and so making their work recognised and valued.

Award scheme is a presentation of some kind to recognise somebody's effort.

Working environment is the quality of the physical workplace and its climate.

Practice questions

Multiple-choice questions

- 1 A worker is paid £8 per hour for working a 35-hour week. On top of this, the worker is paid a bonus of 10 per cent of their wage for the week. Calculate how much the worker earned in the week.
 - a) £280
 - b) £282.80
 - c) £308
 - d) £420.
- 2 Which of these is a financial method of motivating workers?
 - a) award
 - b) praise
 - c) a good working environment
 - d) profit-sharing.
- 3 Which of these is a disadvantage of a method of motivating workers?
 - a) an increase in some of the costs of the business
 - b) increased retention of workers
 - c) increased productivity of staff
 - d) a reduction in absenteeism.
- 4 Jowill, an employer, raises the pay of his eight employees by £1.50 per hour. They work 35 hours each week. After the increase, the revenue of Jowill's business increased by £680 per week. Which of these statements is true?
 - a) Jowill's costs rose by £680 per week.
 - b) Jowill's profit rose by £260 per year.
 - c) The increase in Jowill's revenue per week exceeded her increase in costs by £260.
 - d) Jowill's revenue rose by £420 per week.

Case study 21

United Utilities supplies water and sewage removal services to households and businesses in North West England. It employs around 5,000 workers including engineers, construction workers, clerical staff, financial managers, buyers and surveyors. Some staff work in its company offices in Warrington. Other staff work on sites around the North West, for example, teams responsible for maintenance whose work may involve digging up roads to repair pipework. These teams work to tight deadlines to get their jobs done and to minimise disruption to traffic when they need to dig up roads. United Utilities may have to pay penalties to local councils for work that causes disruption to the roads for longer than it promised in its contracts.

United Utilities is committed to attracting and retaining employees by recognising achievement and through the training and development of staff. In 2021, it employed 40 apprentices. As well as paying good salaries compared to many other employers in the area, United Utilities uses a bonus scheme to reward the maintenance workers for meeting deadlines.

- a) Explain why employee retention is important for United Utilities. (2 marks)
- b) Analyse **one** advantage to United Utilities of paying bonuses to the teams who repair the network of pipes. (3 marks)

How to answer case study 21

- a) Assessment objective checklist:
Understanding (1 mark), Application (1 mark).
Note: you cannot score the application mark if you have not scored the understanding mark.
For the understanding mark, give one reason why employee retention is important for any business. You might consider issues such as recruitment and training costs.
For the application mark, use the information in the case study to show why employee retention will be particularly important to United Utilities.
- b) Assessment objective checklist:
Understanding (1 mark), Application (1 mark), Analysis (1 mark). *Note: you cannot score the application mark if you have not scored the understanding mark.*
For the understanding mark, give one advantage to a business of using a bonus scheme. You might consider issues such as motivation and productivity.
For the application mark, use the information in the case study to show how the advantage you have given would apply to United Utilities.
For the analysis mark, you need to make clear the *effect/impact*. You should develop one way in which United Utilities as a business will gain from using a bonus scheme. Think reputation, revenues, sales, costs, profits and so on.